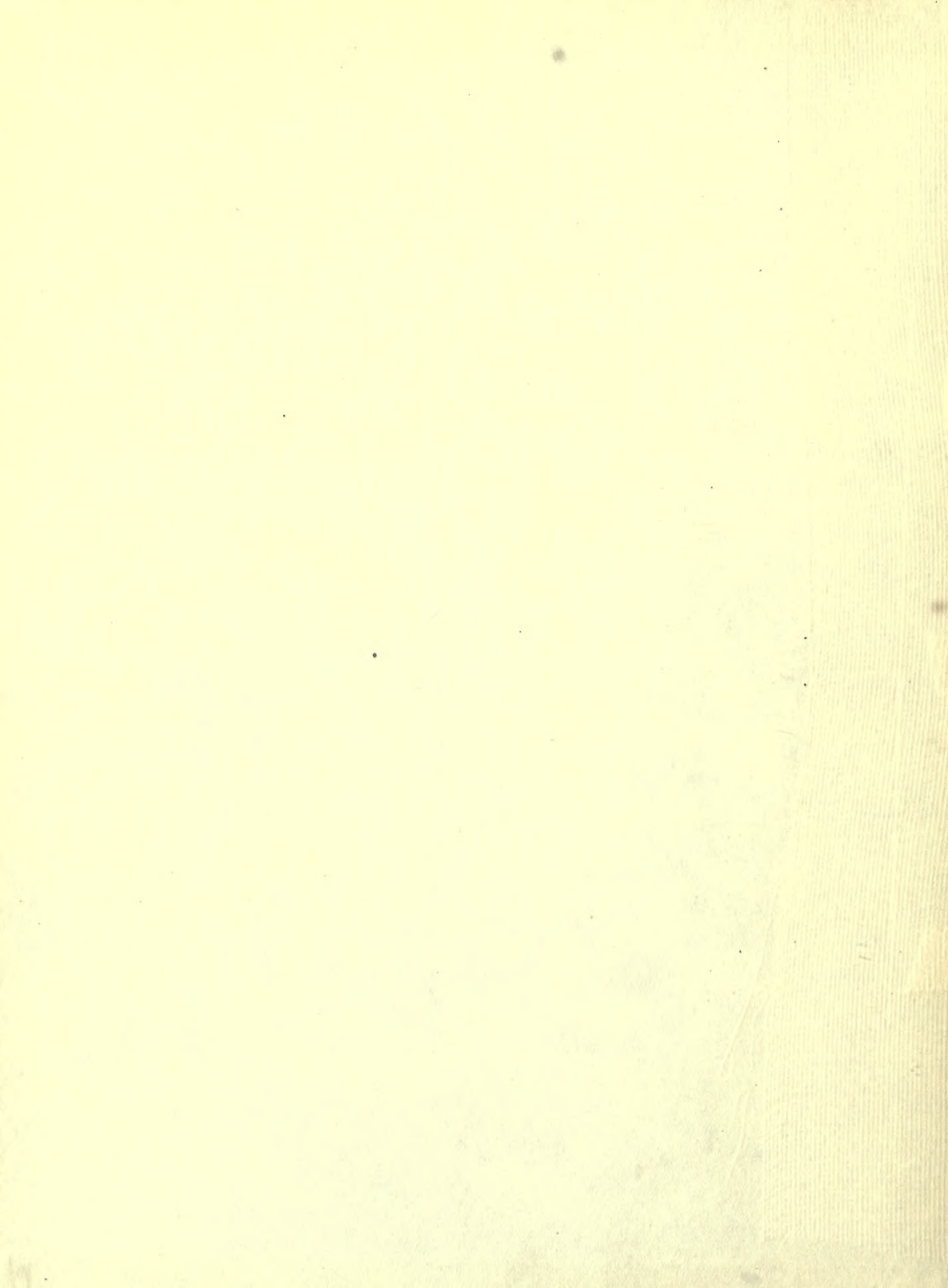


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INTERNATIONAL
ECONOMIC AND FINANCIAL
PROBLEMS

By the same author:

ON CHINESE CURRENCY

Preliminary remarks about the monetary reform in China
by

DR. G. VISSERING,

President of „De Javasche Bank”, Monetary adviser to the Chinese
Government,

with the co-operation of DR. W. A. ROEST, former co-manager of
„de Wissel- en Effectenbank” in Rotterdam, acting as secretary.

Volume I: *the Monetary Problem.*

J. H. DE BUSSY, Amsterdam, 1912.

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Preliminary remarks on the monetary and Banking reform in China
by

DR. G. VISSERING,

President of „De Nederlandsche Bank” (late President of „De
Javasche Bank”),

Honorary adviser to the Chinese Government.

Volume II: *The Banking Problem.*

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INTERNATIONAL ECONOMIC AND FINANCIAL PROBLEMS

BY

Dr. G. VISSERING

PRESIDENT OF "THE NETHERLANDS BANK"



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CONTENTS.

INTRODUCTION.

CHAPTER I.

The deterioration during and after the war	9
--	---

CHAPTER II.

The consequences for the various debtor and creditor countries . .	22
--	----

CHAPTER III.

The ways and means of reconstruction	27
1. Cessation of making artificial purchasing power by the issue of Government and Municipal debt and paper money (including bank-notes)	28
2. Revision of debts	34
3. A general international credit organization	38
4. The institution of a system of organized barter for States whose currency can no longer be accepted as medium of payment in the world traffic	48

CHAPTER IV.

The ways and means of reconstruction (<i>continued</i>).	
5. The restoration of the currency and of the exchange . . .	56

CHAPTER V.

An international co-operation indispensable	81
---	----

CHAPTER VI.

An international address	88
------------------------------------	----

Point n'est besoin d'espérer pour entreprendre, ni de réussir pour persévérer.

Motto at the foot of a portrait of William First, Prince of Orange and founder of the Netherlands State.

After a systematic devastation of human life and of property, plunging a great part of the world in mourning and misery, which lasted more than four years, it was generally expected that the turning-point of the misery would have been reached on the day on which the military hostilities ceased.

Rarely have hopes been more cruelly disappointed; for many, and not for individual persons alone but for entire nations, has misery constantly augmented since the glad day of the armistice. After millions of human beings have perished from the violence of war, still more millions now run the risk of dying of starvation and exhaustion. This has taken place in Russia because disorder and anarchy have there been exalted to a system, involving even a desire to eradicate whole groups of the population in a manner similar to that in which one would wish to destroy vermin.

Economic famine now however threatens countries with a proper form of government, countries which are prepared to participate in the social economy in a perfectly regular manner, both in their own country and in their international

relations, with destruction, no longer by force but — in a figurative sense — by economic emaciation and slow murder.

This is the horrible sin which the world is now being guilty of. The force of arms could, to a certain extent, be considered honourable, especially where it was applied in defence of one's own hearth against the violence of invaders, and where the use of undignified weapons was avoided. In the destruction now taking place on an even larger scale, this noble sentiment is entirely absent; the destruction is now caused by three scourges of mankind which should be written everywhere in letters of fire as a fearful warning:

IGNORANCE — HESITATION — SELFISHNESS.

With praiseworthy energy did various groups of nations brace themselves to begin and then to continue the war with all the strength at their disposal, and the organizing power of nearly all these nations has amazed the world.

On conclusion of the war we see the very contrary: it seems as if the power of organization has been lost; in almost all countries they still continue to commit deeds which it is known and admitted can only augment the sum of misery and, both in the countries themselves and in their international relations, there is an absence of initiative and the strength to persevere required for taking the steps which would lead to better paths.

CHAPTER I.

The deterioration during and after the war.

During the war one was obliged to incur unheard of expense; in order to make expenditure possible, revenue had to be created in an artificial manner. The latter was in itself a very dangerous fact that would certainly lead to serious dislocation of the finances, the disadvantages of which were, indeed, foreseen. The principal object was however reached by its means, viz. the funds wherewith to prosecute the war, and the war, all said and done, was a necessary evil which predominated above all other considerations. An object therefore actually attained, apart from the fact that this object was vile necessity.

On the cessation of hostilities the urgent desire to spend unprecedented sums is maintained undiminished almost everywhere, now no longer from dire necessity, but for the greater part from force of habit and the lack of daring to cut down expenses, and also because there was no organized consideration to impose this necessity on the peoples.

Particularly during the last few months have we seen the disastrous consequences of this weak attitude. The

great rise in prices had already seriously dislocated economic life during the war. In some countries this rise in prices came to a temporary pause after the armistice, examples of which are Switzerland and the Netherlands. In various other countries, however, this increase in prices as expressed in their own currency, has continued in such a serious fashion that a most critical situation was inevitably created, and amongst these are, in the first place, Austria and Germany.

The rates of exchange have often been termed the thermometers of the economic condition of nations. The scale of the rates of exchange has indeed, especially of late, clearly indicated the critical state prevailing in the various countries.

Let us now briefly examine how those countries have come into such a position; we shall take Germany in particular as an example because the conditions there can be more easily overseen.

On the foundation of the German Empire after the war of 1870/71 a Federal Loan was issued, but it had already been entirely redeemed in 1875. In 1876 the whole debt of the German Empire therefore only consisted of 120 million Marks of Government paper (Reichskassenscheine) issued by the Empire in order to withdraw the paper money in circulation in the various Federal States. This issue was moreover covered by the gold treasure in the Julius

Tower at Spandau. Ten years later, in 1886, the debt of the Empire was only 446 million Marks. It is only since 1890 that the debt began to increase more rapidly, and reached the sum of one milliard in that year, of two milliard in 1895, the third milliard being only reached in 1905, sums which would now appear quite insignificant. The increased expenditure for military purposes and the building of a great navy had already, comparatively speaking, considerably added to the debt, for in 1910 it had reached the figure of four and a half milliard, though at the beginning of 1914 the whole national debt, including the floating debt, did not exceed five milliard Marks.

For the payment of interest an annual sum of about 180 million Marks had to be raised, and 60 millions for amortization, so that the debt of the Empire did not impose on the population a yearly burden of more than 250 million Marks.

The Federal States had, moreover, also increased their load of debt and, for all these States together, had before the outbreak of war already reached the sum of 17.7 milliard Marks. Provinces and Municipalities had all together a further 11.9 milliard outstanding. The collective debt of these public bodies in the German Empire was therefore, at the outbreak of the war at the end of July 1914, as follows:

The Empire	5	milliard Marks.
„ Federal States	17.7	„ „
„ Provinces and Municipalities	11.9	„ „
<hr/>		
Making a total of	34.6	milliard Marks.

Before the war this forcing up of the public debt had been considered of such a grave nature that arguments tending to restrict armaments had been brought forward from many quarters; but the war naturally put an end to such deliberations.

The debts of Germany can now be tabulated as follows:
in milliards of Marks.

The Empire:

Consolidated Debt	90	
Floating Debt	80	
	<hr/>	170

The Federal States:

Consolidated Debt	17.5	
Floating Debt	12.5	
	<hr/>	30

The Provinces and Municipalities:

Consolidated Debt	12.5	
Floating Debt	10	
	<hr/>	22.5

Grand Total.	<hr/>	222.5
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Merely for the payment of interest on this debt an annual sum of 10 milliard Marks must be raised. Besides this, there is the heavy burden of the greatly increased pensions to pay, a sum which for the present may be estimated at 4.4 milliard Marks annually.

When considering these figures one must also take into account the credit balances at and the issue of notes by the Reichsbank and of Kassenscheine by the Empire and the Darlehenskassen, which alone exceed 56 Milliard Marks.

What do these figures go to prove?

That Germany, both by borrowing money for longer periods in the form of loans and for shorter periods in the form of Government promissory notes, and further by the practically unbridled increase of circulation media in the form of Reichsbank notes and in the form of Government paper, Reichskassenscheine and the Darlehenskassenscheine, has *in an artificial manner* created *fresh purchasing power* of about 230 milliard Marks; this is not therefore an increase of buying power by enhanced production, economy resulting from the improvement of industrial methods, increase in the volume of the export or by hoarding the funds saved by thrift, but exclusively by the artificial creation of media of payment, overagainst which no assets and no real income was placed.

If a private individual had acted in this fashion in proportion to his fortune and his income, he would long since have been placed under the guardianship of trustees on the count of extravagance. A State may apparently, however, do unpunished for a long time what an individual would soon have been prevented from doing. Only apparently, however, for Nemesis will, in the end, overtake the State even more inexorably than the private individual.

It naturally followed that the issue of such a volume of medium of payment exercised a pernicious influence on its purchasing power, indeed, in two directions, both of which combined to make the result even more fatal. Many economic goods, after the opening of hostilities, soon

became scarce because immense quantities had to be purchased or reserved, while the possibility of production was at once greatly obstructed in consequence of the interruption of foreign traffic and because the productive forces had, to a great extent, been seized to render service on behalf of non-productive operations. The prices of goods were therefore necessarily forced upwards. The augmentation of media of payment did not, however, keep pace with this increase in the price of goods, but soon assumed, proportionately, far greater dimensions; a depreciation in the buying power of the circulation media therefore inevitably set in, due to a cause in the exchange media themselves, viz. the inferior value which the public attached to it in their own country, and especially the value at which foreign countries began to estimate these media of payment. The last mentioned factor especially was very variable and repeatedly, both during and after the war, was influenced by the psychosis or mood of the foreign buyer. We have, for instance, seen how the Reichsmark during Germany's great offensive in 1918 ran up to fl. 41.90 in Dutch currency per 100 Marks, and that, after the failure of this offensive became known, the Mark dropped to fl. 30.90 though the monetary position of Germany had not in the interval undergone such a considerable change. A similar phenomenon was observed in the contrary direction with regard to the French Franc and the English £. During the same offensive the franc dropped to fl. 33.90 and, after the armistice, rose to fl. 44.05 which is only

four points from the normal level vis-à-vis of the guilder, while the franc has now again gradually dropped to fl. 23.— The English £ during the same periods, expressed in Dutch currency, exhibited the fluctuations of fl. 9 15, fl. 11.87 and is now fl. 10.— The rate of exchange thermometer has here certainly given a false reading, and the public mood for the time being made its influence felt by temporarily forcing the rates up or down, just as our atmospheric temperature has this year been influenced by an abnormal heat wave and an exceptionally early frost.

In Germany there were two more influences at work to accelerate this grave depreciation of the currency. The shortage of raw materials and above all of foodstuffs, constantly increased after the cessation of hostilities. The distribution of the army stores in Germany brought a temporary relief; it was however of comparatively short duration and the demand for foodstuffs became more and more urgent. The political events in the country itself and the compliance with the armistice conditions even accentuated this condition, seeing that the transport and proper distribution of the stocks in the country were thereby greatly impeded and the various parties could not confer satisfactorily. Germany had apparently lost her great organizing power. When the Imperial Government and the Reichsbank wished to take steps to prevent the outflow of Marks to foreign countries, the Municipalities and private speculators neutralized the attempt; various Municipalities had taken the food supply into their own hands and had

for the purpose taken up money from bankers or issued loans. With these funds they purchased foodstuffs abroad, large quantities from Holland for instance. In payment for these they sold Marks in Holland and other countries in huge amounts and the depreciation of the Mark as expressed in foreign currencies was thereby greatly accelerated.

The disadvantage of this method for the German Municipalities was not so great as might have been expected because, as a rule, they could dispose of these foodstuffs to their citizens, for the larger part at constantly rising prices. The budgets of these corporations could therefore be made to balance by means of the loans issued and the proceeds of the sale of the goods purchased abroad to the public within their districts, who could well afford to buy them. The ultimate result of all this was however a constantly growing supply of Marks in foreign countries, with a fatal effect for the course of the rates of exchange.

The fact that private persons abroad bought up this supply naturally even further accentuated the process of dissolution, and particularly the secondary but important cause of what was termed the „Loch im Westen”, i.e. the breach in the west, facilitated this action. The German Government had already attempted to curb this unmethodical importation, leading to general ruin, by levying higher customs duties; the Government had even stipulated that the customs duties should be paid in gold value. The Government had thereby admitted officially for the first time that the Mark then in circulation could no longer

be considered as a gold Mark, but that the customs duties, levied on a gold basis, were to be paid in paper Marks at a nominally higher amount. This higher figure or rate, which was originally fixed at $2\frac{1}{2}$ to 3 times the sum of the Mark in circulation, has been gradually increased, until between the 5th and 17th of November it was 520 to 590 ‰, was then raised after a few days to 690 ‰ and has now, since the 8th of December, been fixed at 830 ‰. This means that for every Mark of customs duty the importer is charged 8.30 Marks in the various kinds of paper money now in circulation. This most remarkable fact, which explicitly recognizes the existence of a „Paper Currency”, we shall refer to again later on.

The German Government could only enforce this regulation within the territory over which they had supreme power; they were however powerless in the territory on the left bank of the Rhine occupied by the Entente troops, for the agreement with the Entente prevented them from exacting the customs duties on a gold basis by increasing the sum a certain number of times in the Marks in circulation. Further, they could not place their own custom officers along the frontiers of that territory and the regulation and the control of the imports was placed entirely in the hands of Entente troops of various nationalities. This was naturally a source of numerous difficulties, the principal of which was that the importation of goods via the occupied territory was possible, without any great impediment, for those who could find their way through

this opening, both Germans and foreigners, and subject only to a customs duty payable in the ordinary Marks in circulation so that goods imported through this „breach” had a great advantage above goods imported across other frontiers. Through this breach Germany was flooded with merchandise, a great deal of which was not useful for the country, indeed on the contrary, should now be kept out as being exclusively „articles de luxe” (cigarettes etc.).

In this way enormous amounts of Marks found their way abroad, and two groups of speculators have seized upon the market in Mark currency, viz. bears and bulls. Practically speaking, all exporters of Marks from Germany are, intentionally or not, speculating for a fall. Merchants who have imported large quantities of goods from abroad, including many useless articles of luxury, paid for them with Mark notes, sold these goods in Germany at considerable profit and thus again received payment for them in Marks, naturally in larger sums than they had themselves exported; they therefore powerfully helped to further depreciate the Mark abroad and to force up the prices in Germany itself.

Others also unconsciously worked in the same direction, as for instance the Municipal Corporations which, in spite of the diminishing value of the Mark, continued to purchase in foreign countries and were naturally forced to demand higher prices from the voluntary buyers in their cities. The intention here was not the same and one cannot speak of a speculation in Marks on their part, but the effect on the currency was the same as in the case of the dealers.

Speculators for a rise were the innumerable buyers in a large number of countries, including Germany's former enemies, because they considered the price of the Mark so low that they thought a rise more probable than a further fall. These bulls entered the market when the Marks, as expressed in Dutch currency, were still at more than fl. 40 per 100 Marks, and as the Mark dropped their number continually increased. At the extremely low prices of the Mark during the last few months large numbers of persons, who had until then taken no part in such trade, began to buy. Among these speculators were women, servants, schoolboys with their savings, clerks and also, to a large extent, the farming classes, etc. etc. The speculators for a rise are therefore to be found in all categories of the population.

The bears have so far always predominated and in spite of the large „supporting” orders of the many buyers, the rate of the Mark abroad, continued to drop until a few days ago (December) a rate of fl. 5.10 per 100 Marks in Dutch currency was reached, as compared with the normal rate before the war of fl. 59.20 per 100 Marks.

A remarkable fact has taken place in this connection ; the issue of notes by the Reichsbank and of the Darlehenskassenscheine certainly increased during this period but not in proportion to the amount of Marks sold abroad. This fact can probably be explained by the consideration that a considerable amount of these circulation media in Marks was not actually in circulation, but had been hoarded by way of investment, or by reason of the so-called

„Steuerflucht” (to escape taxation), a phenomenon which has been observed in almost all countries. The holders now had an interest in releasing these notes which for a short space of time actually did come into circulation, thus again supplying material for the greatly increased outflow across the frontiers. We see therefore that in as far as the Reichsbank could have made attempts to counteract the increase in the issue of notes, such attempts would nevertheless not have prevented more and more notes from coming into actual circulation and from being used as a means of payment to foreign countries.

Attention must be called to another remarkable phenomenon. The excessive issue of media of payment had naturally also depreciated the Mark in Germany itself, but this depreciation had, in relation to the prices of goods in the country, not progressed as far as it had in relation to the foreign currencies; hence though the prices of goods, as expressed in Marks, seemed high in Germany, these prices in Marks were marvellously cheap in foreign countries; for instance, an article which in Germany was quoted at three times the pre-war figure in Marks, meant that for a foreigner it had dropped to a third or even less of its pre-war purchase price, simply because the Mark abroad had fallen to 1/10th. of its former value. It was for instance possible for railway coaches in Germany to be offered for 80.000 Marks, which in the Netherlands would therefore at the present moment be about fl. 4.800, as compared with a manufacturer's price in Holland of at least fl. 28.000.

As to the Austrian Crown, the position is even worse, and I shall touch upon it later; it was therefore possible for a well-known watering place to be offered for sale for 15 million Crowns, an offer comprising the value of the buildings, springs and everything else belonging to them, against the transfer of the debt which encumbered the watering place. At a price of 2 cents per Crown the whole spa would therefore have been for sale for a sum of fl 300.000 in Dutch currency, a figure at which a single large residential mansion has recently been sold at Amsterdam.

From this position a counter movement set in: foreign holders of Marks wished to spend these on goods in stock in Germany and cause them to be exported to their own country. Books, pianos, motor-cars, leather wares and countless other goods still available in Germany are being purchased in large quantities by foreign countries during the last few months, and the „breach in the west” again serves as a large sluice. The German sellers thus received in payment for the goods their own Marks at many times the former prices, hence apparently to their advantage. In reality however the Germans surrendered their most valuable property to foreigners for paper money of which the value diminished daily. The process thus became a despoilment, an economic blood-letting of Germany, which has recently been given the technical term of „Entgüterung” or „drainage of goods”.

CHAPTER II.

The consequences for the various debtor and creditor countries.

What are the consequences of the conditions above described for those countries, like Germany and Austria, which are chiefly debtors, and for those countries which are chiefly creditors?

Austria on the one hand and the United States of America on the other, as typical examples of the opposites, will provide an answer to this question.

In working out this analysis I have for the present restricted myself to the example of Germany, because this country can so clearly illustrate the course of affairs. Austria has however already sunk much deeper in her misery; the process of dissolution and disintegration took place and was completed much more rapidly in Austria. Expressed in Dutch currency, the Crown has fallen in value below 2 cents per Crown (even 1½ cent on December 10), as compared with a former parity of 50 cents. Even this value of 2 cents and less is fictitious because all transactions in Crowns have practically ceased.

This therefore means for Austria that it can no longer use the Crown as a means of payment; Austria can no longer buy anything with her own money; she can only procure foodstuffs and raw materials from abroad, either by selling her art treasures and partly her own tools or the few kinds of goods which she can still produce from her own stocks, either on credit, or as a gift like alms to the poor. The condition has thus become almost hopeless and each day, fate overtakes more and more individuals, for they die of misery and exhaustion. The shameful drama daily unrolls itself before the eyes of a so-called civilized world of a nation which may perish as cruelly as a primeval tribe in Europe could die out before the Middle Ages.

The rate of the American dollar is constantly going in the opposite direction. America has preponderatingly become a creditor; besides, this immense country still possesses great stocks both of foodstuffs for man and cattle and raw materials for industrial use. The other countries of the world can therefore only with difficulty procure sufficient funds to pay America and nevertheless are in great need of further supplies from the States. America therefore sees many of her debtors daily becoming weaker, financially and economically, and many of her former customers daily losing their power of purchasing goods. America may of course argue that the country is large enough to consume its own production, but this is only correct to a certain extent. It is inevitable that if so many of America's former

customers stay away, or at any rate considerably reduce their purchases, the United States will seriously suffer from over-production, bringing in its wake a great depreciation in the value of the goods and, ultimately, unemployment. Hence we see that for America, in spite of her prosperity, or rather owing to the one-sidedness of her prosperity, a grave crisis is being prepared.

The other countries stand between these two extremes, some more on the side of Germany and Austria, others more on the side of America. Among the former we may class the other nations involved in the war and now labouring under their burden of debt, who experience a growing difficulty in obtaining credit from others and whose home circulation has been excessively expanded, the visible proof of which is to be seen in the state of their currency in relation to that of other countries. In the second group are more particularly to be found the neutrals and a few oriental countries. Among these the neutrals especially are in a peculiar position in that, on the one hand, they are urgently in need of raw materials, coal, etc. in order to set their industries going again. If and when, however, they actually succeed in setting their industries well in motion, they are to a certain extent faced with the other objection that their usual customers will have lost their purchasing power, at any rate to a great extent. These neutrals will also have to take steps to counter the effects of this diminished purchasing power of their customers.

We see in this way once more how much the war has disturbed and destroyed in the world, and particularly how such destruction has been continued even after the armistice. Before the war, the world had become a huge organism, an enormous piece of machinery from which some wheels have now been entirely blown away, while others are gritty with sand which may seriously damage them, instead of running smoothly like those of a well-lubricated machine. The engine must inexorably revolve and what was formerly being smoothly and regularly carried to the now broken and grinding parts, is alarmingly accumulating in the parts which still perform their function and thus threatens to cause a catastrophe in those parts also.

If the world would only see this, and understand that one's own part will not run any better if the other parts are still more broken than they are already!

These horribly chaotic conditions throughout the whole world cannot be put straight by a limited number of men or States, but this can only be done by co-operation of all. We are faced by entirely different and greater consequences than those which followed other wars; this is proved by rates of exchange which have never been seen before. Whole States have been reduced to a condition similar to that of prehistoric times, before they possessed any system of currency which could connect them with the world's traffic.

This universal chaos can therefore only be resolved by

a properly thought-out system, towards the carrying out of which all important nations could co-operate within their own countries. The granting of a few desultory credits will not do this, and in the end is even absolutely futile; they will ultimately only mean a waste of strength, both for the lender and the borrower.

CHAPTER III

The ways and means of reconstruction.

I wish to call attention to four fundamental points which are to be observed when resolving this chaos:

- I. The cessation of producing artificial purchasing power by the issue of Government and Municipal debt and paper money (including bank-notes).
- II. The revision of the debts.
- III. A general credit organization, in which practically all countries of the world with extensive financial and economic resources could participate.
- IV. The institution of a system of organized barter for those States whose currency can no longer be accepted as medium of payment in the world traffic.

In immediate connection with this, but only in the second place, there could in my opinion be handled:

- V. The revision of the currencies and of the banks of issue in the various countries whose exchange is so violently affected. This can only be energetically undertaken as point V of a programme for the reconstruction of the devastated countries, after the road to restoration has been made plain for the conditions given under I—IV.

I. The cessation of creating artificial purchasing power.

At this moment there is scarcely any country in the world which has not been guilty of abusing the right to create artificial buying power by the issue of Government and Municipal debt and paper money ¹⁾.

Even the United States of North America, whose financial position is so strong, are experiencing the adverse effects of the very large issue of Government debt and paper money. The amount of notes issued by the Federal Reserve Banks on the 14th. of November 1919 had risen to \$ 2.808.456.000 as compared with the sum \$ 346.804.000 (March 23, 1917) before America took part in the war. The position of the Federal Reserve Banks may certainly be still considered strong, because they have still so much gold in their vaults; but if we place this stock of gold (\$ 2.133.260.000 on Nov. 14, 1919) opposite to the total amount of notes in circulation (\$ 2 808.456.000) and the credit balances of the accounts current (\$ 2.881.832.000 on Nov. 14, 1919) it will be seen that the metallic cover, in spite of the enormous stock of gold in North America, is not more than 37.49 % of the

¹⁾ In order to curtail this argument I shall, for the purpose of this exposé, include under the term paper money notes issued by the banks of issue, although in the stricter sense of the word paper money only includes currency paper issued by the Government.

Several of the figures given above are taken from periodicals, i. a. from "The Statist" of November 29, 1919 (p. 1157). In the absence of official figures I shall assume these to be correct.

liabilities payable on demand. Consequently the position has, even in America, become somewhat critical, and the strong movement of the rates of interest on the money market which has there developed during the last few weeks is looked upon as the result of this tense state of things, which induces internal unrest. Now where in America even the conditions in this respect leave much to be desired, how much less favourable is the scene in other States.

England's floating debt at the present moment (Nov. 22, 1919) is Treasury bills and Ways and Means Advances £ 1.294.141.000, National War Bond Receipts £ 1.732.780.000 as against¹⁾ £ 15.500.000 July 25, 1914) before the war. England has now (Nov. 26, 1919) a circulation of £ 86.693.965.10.0 in Bank of England Notes and of £ 338.347.000.10.0²⁾ in the so called „Bradbury's", the currency-notes of £ 1 and 10/- which were issued as a circulation medium by the British Government during the war. Money traffic in England is however by far the greater part done by means of cheques drawn on the Bank of England or on private bankers. In order therefore to estimate the volume of monetary traffic in England, one

1) "Treasury Bills outstanding" (The Economist, August 1st. 1914, p. 248).

2) In considering these figures one must naturally bear in mind that, formerly, gold was to a large extent in actual circulation and has now disappeared, so that a part of the new circulation media has taken the place of gold.

The gold cover against Bank of England Notes on Nov. 26, 1919 was £ 86.314.0 5, and of Currency Notes £ 28.500.000.

must keep a keen eye on the credit balances at the Bank of England on behalf of the public and the Government, and the balances in the hands of the banks on which cheques may be drawn. England has for some time past had to stop the issue of gold and the depreciation of the £ sterling is not only proved by its lower value on the international money market, but also from the fact that the price of gold on the open market on November 22, 1919 had risen to 103/— per oz. fine as compared with a parity before the war of 77/9 per oz. standard, so that gold in England is now at a premium of 20 0/0 over and above the £ sterling in circulation.

In France the position is even more unfavourable. Expressed in Dutch currency the Franc now stands at about fl. 23.— as compared with parity before the war of fl. 48.—. The Banque de France has issued for circulation purposes frs. 37.756.325.000 (Dec. 4, 1919) ¹⁾ in its own bank-notes against which it has under its assets a claim on the State of frs. 30.040.000.000.

If we assume that the American dollar at the present moment represents gold value because America is the only country which still freely issues gold, the pound sterling is, with respect to this gold dollar, at a disagio or discount of 16.88 0/0 (on Nov. 22, 1919) and the French Franc is at a discount of 50.25 0/0, the New York rates of exchange on that date being 4.045 and 9.60 for the pound sterling and franc respectively.

¹⁾ See note ¹⁾ on preceding page.

These figures are here only mentioned by way of example.

How serious these figures may be, the position of Germany and Austria is far worse, perhaps even hopeless, as at the present moment the disagio for Germany as compared with the American gold dollar is 90.55 0/0, and for Austria 96.66 0/0.

This condition of things is naturally a consequence of the war and this is why many and various influences have helped to bring it about, but the immediate cause was undoubtedly the unbridled issue of floating Government debt and of paper money. Hence the countries which have gone farthest in this direction now show the deepest depreciation of their currency, and in the case of Austria it means practically the total annihilation of its exchange value ¹⁾.

¹⁾ According to the Weekly Return of the Austro-Hungarian Bank on Nov. 15, 1919; the Assets and Liabilities (rounded off to millions of Crowns) were as follows:

ASSETS	LIABILITIES
Gold, gold bills on foreign countries, and silver Cr. 325 Hungarian Government Notes & Kriegsdar- lehenkassenscheine . . . 785 Bills discounted 5,845 Loans advanced 8,897 Claims on the State. . . 43,463 Securities 49 Mortgages 264 Sundry Assets 1,666	Capital & Reserve Fund Cr. 252 Bank-notes in circulation „ 50,583 Balances of Accounts current and further obligations payable on demand „ 7,236 Mortgage Bonds in cir- culation „ 261 Kassenscheine in circu- lation „ 1,666 Sundry liabilities . . . „ 1,296

The creation of this artificial buying power has therefore been the chief evil and there is no hope of recovery unless the further creation of such artificial purchasing power is vigorously put a stop to.

I have repeatedly seized the opportunity of pointing out on what a dangerous slope the State treads which takes refuge in creating this artificial buying power in an excessive degree.¹⁾ The prices of the goods in those countries naturally rose almost indefinitely; similarly the wages had to be increased and the increased wages in turn caused a further increase in the price of the goods, though in spite of the high wages the wage-earners were worse off than before the war. In Germany, for instance, we see that the wages have already reached several times their former level; the Mark has however depreciated more than this so that the wage-earner receives, as a matter of fact, proportionately less than before the war. A very large class of persons who live on a fixed income and whose revenue could not therefore be correspondingly increased, are in embarrassed circumstances. Even worse off is what we might term the intellectual middle class, which includes many scholars, doctors, teachers, smaller tradesmen, the very persons who in ordinary times add so much strength

¹⁾ See, inter alia, Transactions of the Royal Academy of Sciences, "Some remarks on the High Cost of Living." („Eenige opmerkingen over het Duurtevraagstuk") Also published separately by W. P. van Stockum & Zoon, The Hague, May 1919).

to the development of a nation by their sturdy activity. In Austria, in spite of the proportionately even greater increase in the wages, the conditions for the wage-earner have also become unbearable.

It may therefore be considered entirely futile to grant credits to countries which assert that they are not in a position to put an end to this creation of new debts, against which they place no assets. Financial aid to countries in such a position would be lost in the bottomless pit of their own depreciation, and the lender would see his debtor sinking deeper and deeper in the bog, and his helping hand would not be able to prevent it.

It may be observed that for countries which are now on this downward grade it is a bitter necessity to make money, because they must be able to continue to pay their officials and to buy food. This is a false argument however. The disaster they try to avoid, viz. dearth and famine, the upheaval of society, will come in any case, though it may be delayed by artificial means; and when it does come it will be of such a magnitude that succour will scarcely be possible, and in such a country many will certainly perish. Austria is the most striking example of this. Postponement therefore only means greater disadvantages, greater obstacles in the way of remedy; if the hands of man have then not commenced the work of rescue, the great need will make the entire population feel to the quick that the catastrophe will certainly come if they continue as they have begun. The catastrophe will

then bring what the hands of man did not dare to undertake, only with this difference that the hesitation to act will have made the conditions even worse.

II. Revision of the Debts.

A second point which will have to be faced is whether the debts which the belligerent countries have incurred, or which may still be imposed upon them, can ever be paid. It is a remarkable phenomenon that, while there is yet but little co-operation and one country still repulses the other, several of these same countries rely on each other to enable them to pay their debts. The greatest general creditors are naturally the United States of North America and Great Britain. These countries have lent enormous sums to their allies during the war, and are entitled to demand that these debtors should pay their debts. Several of these debtors have in turn made very great claims for compensation on the Central Empires, and, when preparing their budgets, already count on the Central Powers actually paying these huge sums.

It is not sufficient however to put these claims down on paper, even if this paper is the official parchment of the Peace Treaty. It will have to be established that the conquered States are really in a position to pay these debts. It is now agreed that Germany will pay, not later than the 1st. of May 1921, 20 milliard Marks in gold or gold value as a first instalment of her indemnity. She will then also have to pay 40 milliard Marks in gold or gold value in

the form of bonds to bearer which in the years between 1921 to 1926 will bear interest at the rate of $2\frac{1}{2}$ 0/0, after which it will be raised to 5 0/0. As from 1926 a further 1 0/0 will have to be paid annually for the amortization of this debt, and finally Germany has had to undertake to issue a further 40 milliard Marks in gold in the form of bearer bonds giving interest at 5 0/0, if the Commission des Réparations, which will now see to the execution of the Peace Treaty, is convinced that Germany will actually be in a position to produce the last 40 milliard Marks in gold value. Here we therefore already find an indication that some uncertainty is felt as to whether Germany will actually be able to yield this war indemnity of 100 milliard Marks in gold value, and in the Commission des Réparations we find a body which, after a thorough examination, may arrive at a final decision as to how far Germany's power to pay actually goes.

It will however be extremely desirable, if not urgently necessary, to apply this sound principle with regard to the paying power of other countries also, and even to determine by the same means whether Germany will ultimately be able to pay the first 20 + 40 milliard Marks in full. For before everything else, the truth will have to be searched out to permit of the solution of the momentous problem of the present chaos. To what purpose should we increase these problems by fantastic representations as to the paying power of nations which in the end will prove to be unfounded, and upon which other States will

in the meantime have based their financial policy? At present the various associated countries are mutually good friends, still glowing from their glorious action together during the war; but there is no relation more dangerous to friendship than that of a creditor towards his debtor. Now if it should prove that the debtor will in the end not be able to pay his creditor, also because the debtor in his turn could not obtain the prompt payment of his claims from third parties, this may become a source of interminable complications; these complications will react on the internal conditions of these debtors, which will be constantly labouring under excessive financial cares and which will naturally attempt to maintain their world credit by promptly fulfilling their obligations. But these complications will in the long run also undermine amicable relations between the great creditors on the other side the water and the debtors on this side. It is therefore no more than prudent policy and wise statesmanship if every nation, each for itself, will submit the items on its balance-sheet to a careful scrutiny. The debts can be readily determined, but the great difficulty will be to ascertain whether the claims on third parties can really be collected, as the country's debts can only be paid after these have been collected.

. There will be no place here for sentimental arguments; one need make no appeal for sympathy with a vanquished foe, particularly where there are still so many grievances against the enemy for their former actions to embitter

public feelings, but it will be in each country's own interest that, when making up the great final settlement, which must now be drawn up and will serve for a period of many years ahead, the point of departure be not an untrue representation of the facts and of the paying power of the debtors. There is still time to confer with each other in a friendly way in order to make a serious examination of the so-called assets of the balance-sheets. Later on this will be much more difficult, especially from a political standpoint, because a subsequent revision would involve the admission of impotence to fulfil the financial obligations which had been undertaken towards others. Not only will this be most painful for the feelings of a proud nation as debtor, but from a purely business standpoint it may become an unbearable burden for those countries whose credit would be seriously injured in the eyes of the world if the leaden weight of unpaid debt is not removed.

If truth in this respect is not striven after, the granting of great international credits will meet with great difficulty, and may even become entirely impossible to those countries whose position would thereby prove to be so uncertain. After a number of years there would be a financial crash which could now be prevented by a wiser policy and a greater daring to face the truth.

May the rates of exchange in this respect also be a grave warning.

Where the depreciation of the rates of exchange speak so plainly, it is futile to deny the true state of things.

III. **A general credit organization, in which all the more important countries of the world can participate.**

When this truth has, first of all, been faced, great assistance can be rendered towards the reconstruction of the world by granting large credits to those countries which have suffered most from the war and the depreciation of whose currency now forms a serious obstacle to the recovery from the losses they have suffered. In this respect too only an concurrence of various countries can result in a satisfactory solution. There must therefore be no rivalry and especially no jealousy between those countries in a position to grant credits, in attempting to draw as great a profit as possible for themselves, to the exclusion of others, from the aid they render. It can never be in the interest of the whole if any one country or group of countries, should acquire special privileges or special pledges against the credit they grant, to the disadvantage of the credit granted by other countries, for the granting of credit to the countries in need of help would thereby necessarily be restricted, a fact which would be to the injury of all.

Every country which is in a position to supply has, to a certain extent, its own special kind of product which is available for export. Let us therefore hold an international enquiry as to how a practical division of labour can be secured, also with regard to the supply of goods to the needy countries. One should in doing so adopt the

broad standpoint that, we wish, it is true, to do business — for sentimental arguments must not be allowed to influence us here either — but that in doing such business it is not our desire to earn large profits by such transactions, but to co-operate in the general reconstruction of the whole world, which in the end will enable the impoverished countries to return as buyers in the world's markets.

Such a general credit organization would also have to adopt as its guiding principle that as a rule not *money* would be lent to the needy countries but that goods, foodstuffs, raw materials for the revival of industry, means of transport, etc., would be supplied on credit and that the furnishers of each of the granting countries should demand payment in their own country through the credit organization which will procure the necessary media of payment in the granting country for settlement with the suppliers of the goods to the receiving countries. One will therefore have to try and form an organization in which we should have on the one hand what we might call the "lending countries" who would in combination grant the credits to the other group of nations, the "borrowing countries", which must be helped to reconstruct their social and economic life.

A new problem which here presents itself is in what currency such credits must be granted. Consultations have already taken place at great length between persons of

different nationalities as to the possibility of establishing such an organization based on a settlement unit which would apply to the whole world, taking as the point of departure the idea of issuing, in the associated lending countries, a uniform kind of debenture bond, the value of which would be the same for every country, with the object of making this bond deliverable at the same value in all these countries.

This problem is not, under the present circumstances, yet possible of solution; the currencies of the various countries are still too different from each other. Before the war, when the gold basis of the currency was accepted nearly everywhere, bonds could be issued on which a fixed rate of conversion for each country was determined beforehand. Hence we see that numerous foreign bonds were issued on condition that both the coupons and the redemption could, at the request of the holder, be paid in the currencies of various countries. Even if a form could be found of basing these bonds on a universal gold value, which to a certain extent would make them uniform in value for the various countries, one would be met with the great difficulty that at the moment of payment of these bonds an exceedingly varied sum in the currencies of the subscribing countries would have to be paid.

Let us assume for the moment that the American dollar represents gold value and that the bonds are issued at that gold value. England would then have to pay a premium on them of 20% in her own pound sterling, the Nether-

lands a premium of $6\frac{1}{2}\%$, Sweden a premium of $16\frac{1}{2}\%$, and Denmark a premium of 39% . It is true that one could also calculate the goods to be supplied by the various countries at such a gold value and find therein a compensation for the depreciation of their own currency, but this would not solve the difficulty because the bonds, or at least a large portion of them, would not come into the hands of the suppliers of goods; it is obvious that these suppliers cannot invest their working capital in these bonds, which consequently will be largely held by the investing public who, practically speaking, are outside the transactions altogether. The adoption of a fixed rate for these bonds in all countries would not solve the difficulty, but only displace it.

There is therefore at present no other solution available than that, besides general consultation respecting participation in the great international credit organization, each of the lending countries shall provide its share calculated in its own currency. This is also feasible because each country will naturally supply what it can from its home produce, or what it can secure in the world's commerce by means of transit through its own country.

The value of the goods offered will thus already be established in the currency of each lending country, and a borrowing country can in this way import goods from each of these countries, receiving an invoice of their value in the currency of that particular country. Each of the lending countries will then have to create an organization,

either independently by the combination of its bankers with the bank of issue, or with the support of its own Government, in order to procure in the country itself the funds required to pay the suppliers of the goods, so that the credit to the borrowing countries can thus be exclusively given in the form of goods, on condition they are paid for within a period determined when granting the credit.

In this manner the possibility of having the bonds of each of the lending countries placed on the international investment market by each of them reciprocally, need not be excluded, for these bonds would actually represent the debt of the lending countries themselves, secured by the claim of the lending country on one or more of the borrowing countries, which claim will in turn naturally be covered by special guarantees on the part of the borrowing countries. Exactly in the same way as one now looks for international investment in debenture bonds expressed in other currencies, as for instance debentures of American railways and industrial concerns have been much sought after in Holland for many years past, there will in the future be the possibility of purchasing these debenture bonds, arising from this credit organization, in other countries. The speculative element would even be an important factor in the transaction. A Dutch investor might consider, for instance, that there was great likelihood that the pound sterling or the Danish Crown would increase in value; this

would certainly be a motive for him to purchase, in England or Denmark, the bonds of this credit organization, at the price in the pound sterling or in Danish Crowns, for the purpose of investment.

If such an international credit organization is to be successful, the scheme must be planned on a large scale. It is not a question of granting a number of separate credits, but the resuscitation of whole nations. Hundreds of millions, if not several milliards, will be required to effect this. The whole of the sum estimated for the scheme will naturally not be required at once, if only for the obvious reason that it is not possible to supply all at once all the goods required by the borrowing countries. This will require time, both for the manufacture of the goods, for harvesting the crops and for their subsequent transport. The money markets of the various lending countries need therefore not be suddenly oppressed with the whole amount of these issues, so that the absorbing power of the investment markets in those lending countries will have a better chance. On the other hand, however, the organization of this credit supply will from the very beginning have to be so large that the combined assistance given to the borrowing countries will really be sufficient to provide them fully with the means of revival.

Another principle that will have to be observed in the granting of these international credits is, as already briefly

stated above, that these credits must not be granted with a view to reaping great profit from the investment. The interest to be paid on these debenture bonds will have to correspond with the rate of interest ruling on the money markets of the various lending countries. It may therefore be assumed that the interest of the debentures will be at least 6 0/0. Their attraction as an investment will not however have to be looked for in a high rate of interest, but rather in the high degree of certainty of the proper repayment of the moneys advanced, and for this certainty the borrowing countries will have to give special guarantees.

This means that the international organization will have to be on such a scale that it will no longer suffice for separate credits from the inhabitants of a lending country to be granted to the inhabitants of a borrowing country. One will have to proceed on much more fundamental lines than was formerly observed in international commercial traffic. From these credits will have to be excluded the supply of goods which are not urgently needed for the reconstruction of the borrowing countries — goods which Americans have so typically termed „non-essentials“. The supply, for instance, of certain articles of luxury must not be financed by these credits, for it is in the interest of all that the resources of a borrowing country are not wasted on useless goods. The lending countries will therefore have to create a central organization in which each of them is represented, having its seat at some place well in the centre of Europe, in order to

ascertain what kinds of goods the lending countries could supply and which of them can be considered essentials. On the other hand an organization will also have to be created in the borrowing countries whose duty it will be to determine, after a thorough enquiry, what kinds of goods are really needed in the borrowing countries, and what special guarantees can be furnished for the repayment of the credits. In the borrowing countries the Governments will have to stand behind these organizations and in those countries whose currency is most depreciated, guarantees will, *inter alia*, have to be given in the form of pledge on the import and export duties, as has been repeatedly done in practice, and with great success, in the case of loans to Turkey and China. The Governments of the borrowing countries are naturally justified in giving such special guarantees, because the supplies they are to receive may be looked upon as of vital importance, not only for a few manufacturers but for the entire population of the borrowing countries.

It will therefore really be a question of general importance that this organization, both on the part of the lending countries and on that of the borrowing countries, shall be founded on firm principles and one will particularly have to avoid the waste of energy which would result from rivalry in the granting of partial credits in which only the most forward gain the greatest profit but where the interests of the whole are certainly not safeguarded, as they would be in a definite, universal organization. It

is therefore not wise that partial credits are already being given to various countries separately, especially if an end has not been made of the fundamental mistakes still being committed, as described in Chapters I and II. Pouring water into a barrel of which the bottom continues to leak as it does now, can never lead to the object in view and only means the loss of what is poured in.

There is another question which must, especially for the lending countries, be borne in mind. It may be remarked that many of the lending countries themselves will be faced with great difficulties in their own countries, that they also may be forced to incur great expenditure, that they also have already reached the limit of permissible issue of floating Government debt and that the creation of fresh credits in their own country on behalf of the borrowing countries will therefore lead to a continuation of the creation of floating debt and to the further issue of circulation media, all of which will tend to promote inflation in the country itself and the consequent further forcing up of prices.

Such a remark would be quite justified; these disadvantages will arise and each of the lending countries will therefore have to face them. One must however take into consideration that even the lending countries will ultimately only be able to return to normal paths if the commercial and world traffic in general has been adequately restored. If the condition of the countries in distress were to continue

for any length of time as it is at present, or even if a single one of them were to come to a state of complete ruin, this will react so violently on all the countries which are now apparently still in a favourable position, the disorganization resulting in unemployment, famine, political riots and disturbances throughout the world will increase to such an extent, that the lending countries so called will also be swept into the coming misery, or at any rate will suffer severely from their effects. Neither in this case need we put forward sentimental arguments, although we need not overlook the humane duty of helping others. Even in this case we can keep on a strictly material plane and still have to come to the conclusion that the disadvantage of increasing misery and increasing disintegration of the world will be so much greater than the otherwise undeniable disadvantage of a temporary inflation in the countries rendering aid, and that one will have to accept the latter disadvantage resignedly before better conditions, in their own country also, are attained.

A certain contradiction may be felt in the fact that a country rendering aid will be prepared to advance credit to a neighbouring country in distress and yet will wish to exercise strict censorship on the creation of credit funds on behalf of its own State and of its own Municipalities. After serious consideration one will, nevertheless, be forced to the conclusion that those credits are advanced to foreign countries for productive ends, and that it is precisely the

solution of the home problems which can in the long run only be found if one is prepared to assist in restoring order in the countries around us, which must eventually remain our customers and who in turn must be able to supply the goods which we shall urgently require for our own domestic and industrial use.

If the importance of this is not sufficiently realized in the countries rendering aid, a severe retrogression will also take place in these countries, with consequent unemployment and further dislocation of the entire social and economic machinery.

IV. The institution of an organized international system of barter.

The measures described in I—III, even if they are immediately taken in hand, cannot be carried out at once, as very extensive preparations are necessary. In the meantime the need in certain countries is daily growing more insistent, especially in those countries whose currencies suffer from severe depreciation or have practically become valueless. These countries can no longer, as a matter of fact, buy in foreign countries. They are thereby greatly impeded in the manufacture of products and articles which could certainly be finished if only a few ingredients and materials could be obtained on credit from abroad.

By means of the so-called "finishing traffic" a certain amount of relief is already given here and there to foreign countries; a credit is for instance granted for the supply

of hides on condition that the leather or leather wares manufactured from them is resold to the country that granted the credit. The assistance thus rendered is however by no means sufficient and there are, besides, but few cases in which the finishing traffic can be carried out in such a simple manner. The supply of raw materials on the one hand and of the finished products on the other will, for the greater part, have to be led into entirely different channels. A firm of electrical engineers is, for instance, able to make electrical machinery, which cannot be completely finished for want of silk for insulating purposes. Now it is obvious that a silk spinner cannot supply silk on condition that he shall have the electrical machines in return. The silk spinner is not therefore prepared to supply his silk on credit, as he has not sufficient guarantees that he will eventually obtain payment for it. Moreover, it is quite possible that the silk spinner does not wish to supply on credit at all, because he wishes to keep his funds floating in his own business.

Germany and Austria are now in such a position that it is only with great difficulty that they can acquire payment media in foreign countries; at the present level of their rates of exchange they would have to pay 10 and 25 times the value in Marks and Crowns respectively for purchases abroad, assuming that the foreign exporters are still prepared to accept Marks and Crowns, which is certainly not, as a rule, the case at the present moment. Under point I we have moreover seen how the sale of

Marks and Crowns persisted in for a long period of time, was one of the main causes of the present wretched conditions, so that for this very reason a further export of Marks and Crowns is to be avoided. Only by way of exception can any individual abroad be found who is prepared, under the present circumstances, to grant a temporary credit to the inhabitants of either of the Central European Empires. Industry in these States will therefore be reduced to a standstill, and yet production is required more than ever to permit of export, from the proceeds of which further raw materials, foodstuffs, etc. can be paid for.

In these Central Empires there are still a number of articles which are suitable for sale to foreign countries, thus producing means of payment for essentials. We have already seen however how the Central Empires are wasting these resources by accepting their own depreciated Marks and Crowns in return for these goods sent abroad. It is amazing to see countries which formerly excelled in organizing power, now permitting this chaotic "drainage of goods" and allowing their last energy for export to be exploited recklessly.

This „Entgüterung" or drainage of goods is seemingly an advantage for the purchasing countries, but in reality it is also a disadvantage. It is a dumping of the worst kind, not engineered by the exporting countries but enticed by the importing countries. In the Netherlands, Belgium, France, the Scandinavian countries, etc. these goods from the Central States are being bought up in large quantities.

In the first place, large quantities of superfluous merchandise are thus purchased from sheer bargain hunting, but this flood of cheap goods must have a disastrous influence on the trade and industry of the importing countries, such as is, quite rightly, feared in consequence of dumping from abroad.

An unhealthy state of things has therefore been created on both sides, in the country of the seller and in that of the buyer, and the sooner it is remedied the better.

This can be done by instituting an organized system of barter. One must, in principle, revert to primeval times when settlement did not yet take place on the basis of a system of currency. Now that money has, for those countries, been discarded as an intermediary, a new intermediary will have to be discovered. For this purpose we can make use of a new form of exchange, which we shall call the *barter institution*.

The simplest form will be that two countries set up such a barter institution between them. Take Germany and the Netherlands as an example. Germany would have to prepare a list of the goods she wishes to buy, and the Netherlands would state the quantities which they would eventually be able to supply to Germany. Germany would, further, have to furnish a list of what she could deliver immediately, and what within a comparatively short time, say three months to a year, after the harvest or completion of the process of manufacture. All these enquiries and offers on either side will have to be registered at the Barter Institute.

On registration, the value will have to be determined, for which purpose the Mark now in circulation can naturally no longer serve. The value could therefore be fixed, for both parties, in Dutch guilders or, if one has not sufficient confidence in the stability of the value of the guilder, a new unit of account can be selected, e.g. a fictive Gold Mark or a fictive Gold Guilder, which would, in the end, naturally come to the same thing. These offers and, when eventually carrying out the deal, the delivery of the goods could then be cleared for their value, as is constantly taking place in contango business, when dealing in futures and between bankers. Large amounts are thus mutually exchanged, by striking them off on either side of the account and only actually paying the insignificant balance left, such final settlements frequently taking place between two parties who originally had nothing to do with each other. In the case of bankers' clearance for instance, Bank A may be required to pay a debit balance to bank F, although A had not originally owed F anything and had perhaps even done no business with F.

Seeing that the same unit of account can be adopted for all transactions, either party is certain of obtaining the full intrinsic value of the goods supplied by him and will no longer have paper money palmed off upon him which on subsequent re-issue to foreign countries may only possess a part of the value at which it was accepted in payment.

Through the intermediary of the Barter Institute it will be again possible to advance credit on goods to be delivered

at some future date. Indeed, if it can be reasonably proved that the electrical engineers in Germany will be able to deliver a certain number of machines within six months, for which machines they have already found buyers in Holland, provided the silk spinner will only supply the silk, the bankers and other money-lenders may, in combination with the Barter Institute, render financial help in order to pay cash to the silk spinner, thereby granting credit to the engineers.

Both the electrical engineers in Germany and the buyers of the machines in Holland can apply for this assistance from their bankers; a legal form can readily be found and from a financial point of view adequate guarantees will certainly be found on which the money-lenders can base their credit.

Each of the parties on either side may then convert the value in the unit of account of the Barter Institute into the currency of his own country. The following example will explain the method in which this is done:

The engineers' production cost is x ; on delivering the goods they will, over and above this, make a profit of y . From x they will pay the cost of all the raw materials, wages, etc. and y then ultimately remains as a profit at their disposal. They can convert this y into Marks at the rate of the day, because other persons in Germany will also require a sum of y to purchase goods abroad. Should the manufacturers not require Marks for their y , they may themselves purchase so much the more goods

from abroad, or they will on the next occasion require so much less credit from the banker who had previously granted them credit.

Similar calculations in fictive units of account were done on a large scale a few centuries ago through the Amsterdamsche Wisselbank (Amsterdam Bank of Exchange) in the United Provinces of the Netherlands and through the Hamburger Wisselbank (Hamburg Bank of Exchange) at Hamburg, the latter only being transferred to the Reichsbank as recently as 1875. These institutions carried out international settlements and clearances in the Bank-guilder and the Banco-mark with great success, both fictive units of account possessing a remarkable stability among the numerous kinds of money in circulation in those days. The Amsterdam Wisselbank was even the principal settling institution for the whole of Europe for more than 100 years. ¹⁾

This Barter Institute will also be able to act as intermediary for new countries which do not even yet possess a system of currency, such as Czecho-Slovakia and Poland. The so-called bills on Prague and Warsaw are scarcely negotiable on the open market; by means of the unit of account of a Barter Institute these countries could easily be connected up with the world's money traffic.

¹⁾ ADAM SMITH, "Wealth of Nations", Book IV, Chapter III. Sir WILLIAM TEMPLE, "Observations upon the United Provinces of the Netherlands", London 1673, Chap. II, p. 99; Montesquieu, "Esprit des Lois", Liv. XXII, Chap. I. In my book: "On Chinese Currency I" (J. H. DE BUSSY, 1912) I have given more information on this subject.

If the traders in the various countries take part in this barter institution this must, as far as possible, be done voluntarily. The dealers' own interest will induce them to join, for it is obvious that every one in Germany and the Netherlands has a personal interest in the resumption of normal conditions; it is in the baker's interest that the electrical engineers can keep their hands employed and thus enable them to buy his bread, and it is in the engineers' interest that the baker should obtain sufficient flour to make bread for them and their workmen.

Some pressure will, however, have to be exercised to set the thing going, the further drainage of goods from Germany against the ruinous payments in Marks will, for instance, have to be prevented. Prices in Germany will therefore have to be fixed afresh for deliveries to foreign countries and these supplies will have to be led through the Barter Institute, though the buyers and sellers in the various countries will otherwise be at complete liberty to open up business relations with each other.

It is to be hoped that the advantage of such a Barter Institute will soon be realized in Germany and Austria, and that they will once more show enough organizing power to carry out the good resolutions taken in this direction. Improved conditions will then soon set in for these sorely afflicted countries and their financial strength will proceed towards a recovery which, in the end, will also benefit their powerful creditors.

CHAPTER IV.

The Ways and Means of Reconstruction.

V. The Restoration of the Currency and of the Exchange.

The system of barter clearing will chiefly have to serve in the period during which the currency is so disorganized and the exchange so depreciated that the countries suffering from this evil are in danger of being cut off from the world's traffic.

If the high road to recovery has been taken, one of the great problems to be solved first will be the restoration of the currency and the exchange.¹⁾

We will now take Austria as example because the conditions there are most desperate.

The Austro-Hungarian Bank has issued 50,582,595,227 Crowns in bank-notes and has a further sum of 7,235,850,446 Crowns in liabilities payable on demand. Against this we find assets consisting of 325,097,376 Crowns in gold and silver and in foreign gold bills and gold notes (see Bank Return for Nov. 15, 1919) and further, as the principal asset items: Discounted bills 5.8 milliard Crowns, Loans

¹⁾ For the purposes of this essay the former Empire of Austria-Hungary is taken as a whole under the name of Austria; this treatise would be too complicated if in expounding the theory the division into the various states were constantly referred to. If such an organization is eventually created, the division into new states will naturally have to be observed.

against securities 8.9 milliard Crowns and a total of more than 43 milliard Crowns of claims on the State. The gold cover of the liabilities is therefore 5.71 0/0 or slightly more than $1\frac{1}{2}$ 0/0; the further cover is in bills discounted and loans against securities of about 24 0/0, and about 76 0/0 in claims on the countries which composed the former Austro-Hungarian State.

The balance-sheet naturally balances; against the liabilities there are assets to an equal amount. Must it therefore be concluded that the liabilities represent 100 0/0 of value? Not in the least, of course, and no one is bold enough seriously to make such an assertion and, moreover, the price of the Crown, both as compared with the prices of goods and on foreign markets, adequately proves this. And yet we must not see the position blacker than it really is, and one will, in the first place have to inquire as to the relative value in which these Crowns were created, both on the credit side (the side of the liabilities) and on the debit side (the side of the assets.)

The Crown is, in name, a monetary unit which was equal to the value of 0.304878 of fine gold; before the war this value was accepted as really existing, because for the nominal crown one could either obtain the precious metal or a bank cheque in foreign currency, and because one could, throughout the community, buy goods and services for the Crown money which in value were equal to the nominal Crown value.

Very soon after the outbreak of war Austria exhibited

one of the worst examples of a reprehensible administration of the finances, into which direction the Austro-Hungarian Bank was dragged along. The Government constantly issued more loans without really placing assets against them. In spite of all sophistry that the money was distributed among the public, more and more money was being artificially created, the greater part of which was being devoted to non-productive ends and intended to disappear by destruction. Against the State's increasing acknowledgements of debt was placed a counter value of . . . nothing at all, and as more and more media of payment had to be created against the constantly growing issue of acknowledgements of debt by the Government, the bank of issue constantly issued more notes which, as their counter value, had Government debt acknowledgements, representing . . . nothing whatsoever. It soon came about therefore that the gold value was no longer in proportion to the nominal value of the Crown notes issued and this deterioration has reached its nadir in the balance of the Austro-Hungarian Bank as it stands to-day, viz. that against 58 milliard crowns in liabilities payable on demand there is slightly more than $1\frac{1}{2}$ ‰ as gold cover and 76 ‰ in Government bonds of very inferior value.

- This is how it came about that two kinds of payment media have been brought into use side by side: viz. the gold Crown, still existing in the gold pieces actually present which, if still in the possession of the public, are anxiously kept concealed and of which there is pro-

bably a certain limited amount deposited in the vaults of the Austro-Hungarian Bank, though for the rest it has merely become a fictive unit of account. Alongside this we have the paper Crown, whose value has become liable to very great fluctuation and which has, practically speaking, ended by being worth nearly nothing. This paper Crown has thus, through the force of circumstances, come into existence outside every legal regulation, for the law does not even recognize the paper Crown. Nevertheless the paper Crown soon became the sole medium of circulation, either in the form of bank-notes or in the form of Government „currency” notes, or in the form of credit balances at the bankers, against which one can draw cheques or transfers.

It goes without saying, however, that goods and service possess a definite value in themselves, as separate from an existing system of currency; their price is only expressed in the unit of that currency. Now these goods and services can only be delivered against a real counter value, and now that the value of the currency unit in circulation has fallen, the value of the goods and services must necessarily be paid for in so many more currency units. The fact that a greater number of currency units (in this case paper Crowns) must be paid for goods and services, need not mean that the receiver obtains payment for his goods and services greater than their real value. It may even occur that the greater number of currency units do not even represent

a higher value as compared with the former payment.¹⁾

Now this has taken place in a great degree in Austria, and this owing to another cause. I have already referred above to a common phenomenon that on the depreciation of a country's own currency the rise in prices in that country does not keep pace with the depreciation of the currency abroad. The state of things has in this connection proceeded so far in Austria that, even if the purchase price of goods and of the labour wages in the country itself had already reached 25 times the former cost, the receiver of this 25 times does not even possess the same purchasing capacity as he would have acquired with his single gold Crown before the war. Even at 25 times the paper Crown no foreign country will sell anything to the Austrian; but if an Austrian to-day were still able to hand over gold Crowns, then the merchandise of the whole world would still be at his service.

Austria has therefore given the most positive proof that a rise in price and wages are of no use whatsoever if steps cannot be taken to prevent the further depreciation of a country's own currency, which was brought about by the creation of more and more artificial buying power.

¹⁾ This is why tables of what are termed Index Numbers can give such an incorrect representation of the state of things if care is not taken to distinguish how much of the apparent increase in price, as expressed in the nominal quantity of the medium of exchange, is to be attributed to the depreciation of the country's own currency.

With this increased purchasing capacity one could, in Austria, apparently pay higher prices and wages; but this was only apparently so and every one can now see how this appearance was deceptive: the increase in prices and wages could not even keep pace with the depreciation, but on the contrary gave it a further push downwards. The increased expenditure rendered the creation of still more artificial purchasing power necessary and the race in the wrong direction between increase of wages and depreciation of currency, became more and more fatal to the interests of the whole State and its inhabitants individually, until the depreciation has now practically fallen to zero and the increased prices and wages have brought no sign of relief, indeed, on the contrary, large classes of the population which could not participate in the general increase, such as officials, schoolmasters, and those who live on their interest or pension, have been made paupers and the country has been brought to the edge of the abyss. Many Austrians are dying of hunger, and now perish of disease and exhaustion, because they can no longer supply gold Crowns. Many of them must now be kept alive by alms; and yet if they were able to acquire gold Crowns, they would be saved from this misery.

In this wretched position and in the excessive depreciation of the Crown, however, also lies the remedy if one will only have the courage to look at things without prejudice and to see the facts as they really are. In the

first place, one will have to take into account that the greater part of the crowns were issued when the Crown had already depreciated, hence when it was already certain that no further gold Crowns could be issued. The Crowns issued during, and especially after, the war were therefore paper Crowns from the very first; the first receiver of such Crowns has therefore already given as counter value for them either an object on an equal footing, such as the new Government Debt Bonds, or his goods and services at an increased price in Crowns; in both categories of cases the receiver of the Crown notes was perfectly aware that he only received an inferior paper Crown in payment. Further, selling such crowns to foreign countries against a constantly diminishing value in the foreign currency made it obvious that the foreign buyer had only acquired depreciated paper Crowns.

The holders of all these Crowns thus have virtually no right to demand the eventual repayment of their paper Crowns on the basis of the gold Crown; if this were done such holders would pocket an entirely unearned — and undeserved — profit at the expense of Austria, and the burden for Austria would be so immense that she would never be able to extricate herself from her present difficult position.

One will however have to distinguish between claims in Crowns dating from different periods. The pre-war Government debt was really incurred at their gold Crown value

(or other nominal gold value before the introduction of the Crown); the parties who acquired and held them at the time had therefore paid the full gold value for them. A clause has consequently been inserted in the Peace Treaty that Austria must continue to pay the interest and amortization of such bonds in gold Crowns to the holders in the Entente Countries; this stipulation is in itself by no means unreasonable. The same would apply to claims in the form of bank balances, deposits, supplies on credit and other credits dating from the time when the Crown still had a gold value. An arrangement has, for instance, been made between Germany and the Dutch holders of balances in Marks dating from before the war, according to which these balances were converted into new acknowledgements in Dutch guilders. This arrangement was also perfectly fair, but no holders of newly acquired Mark balances were, however, allowed to participate in this arrangement, seeing that they had voluntarily purchased these balances at a moment when they knew that the Mark no longer possessed its gold value. It will therefore be perfectly fair to demand that Austria should ultimately once more fulfil her obligations on the gold basis towards holders of claims who have retained the same claims since the time when the Crown could be considered to have possessed its gold value. It will frequently be difficult to draw the line, but in every arrangement there are border cases which, individually, would be unfairly treated. A court of arbitration could be established for such cases.

The remaining holders of claims in Crowns acquired during the depreciation may not however receive payment at the full gold value of the claims. One will therefore clearly have to establish that they are only holders of paper Crowns and have never been anything else. In view of the restoration of the currency and banking system in Austria one will therefore have to accept as a fact that the present circulation of Crowns consists entirely of paper Crowns. This makes the solution of the problem much simpler.

Recapitulating, we can give the following analysis of the present condition and of the direction in which the solution will have to be found:

Austria has, according to the present Mint Acts, a gold Crown, which is no longer to be found in circulation. A comparatively small quantity is still to be found in the vaults of the Austro-Hungarian Bank in the form of gold pieces and in the form of silver pieces, and to a certain extent even in the form of subsidiary coin. There is probably a small quantity in the hands of private individuals, who have carefully concealed them.

This gold Crown must be retained, also for the future, as a unit of account, as in former times the Bank-guilder and the Banco Mark played the part of fictive unit for many years. In this manner a fixed monetary unit and unit of account is retained for the future.

Side by side with this there is in circulation the paper Crown

which, at the present moment, together with the Scheine of the Kriegsdarlehenskassen and the Government Currency notes, amount to more than 60 milliard Crowns. This figure includes the credit balances in the hands of the Austro-Hungarian Bank, but not the credit balances in the private banks, against which cheques and transfers can naturally also be drawn.

As the first and absolutely necessary step to arrive at an arrangement it must be resolved that no further artificial purchasing power shall be made and consequently that no further circulation media shall be created against fictive assets; if such a decision cannot be arrived at, every attempt at restoration will be futile.

One must therefore arrive at this determination, and in the course of my further argument, I shall therefore assume that this will actually take place.

These 60 milliard Crowns can thus for the time being be quietly left in circulation; they will, however, almost exclusively serve for the home circulation, and will consequently play no part of any importance as medium of payment to foreign countries. These paper Crowns are to continue to circulate at their depreciated value, and all payments which are now being made with them shall for the present continue to be made by their means. For instance, the wages, rents and the countless other daily payments in social intercourse will have to continue in these Crowns and where one formerly paid tens of Crowns one will have to pay hundreds of these paper Crowns.

We shall then see the same phenomenon in Austria as in Portugal, where even small payments are expressed in thousandths of reis (milreis); the thousand has there taken the place of a former unit.

In the meantime, we can accept as a fact that those 60 milliards of paper Crowns are not all required for the daily circulation; a large number of the notes will be hoarded up or held abroad. In view of this we can already take the first step towards restricting this sum of 60 milliard Crowns; they are actually a Government debt, and in this form bear no interest. Now make it possible to exchange these Crowns into a long-term Government Debt, redeemable say, within 60 to 100 years. Let this Government Debt bear interest at, say, $2\frac{1}{2}$ 0/0, both interest and amortization being made payable in the same paper Crowns, or in the other value in which these Crowns will in the future be paid. The holders, who at the present moment have holdings which bear no interest whatsoever, and which they do not even wish to use as a means of payment, will therefore immediately gain an advantage in taking up this Government Debt, and their wealth is not diminished because this Government Debt will continue to follow, step by step, the value of the paper Crowns.

There is therefore every probability that this very great sum of paper Crowns issued will thus already be considerably reduced. Nevertheless there will nominally remain in

circulation a far greater amount than there was before the war; now if this amount, taking the depreciation into account, is converted to the nominal value of the gold Crown, it will appear that the actual circulation need not be so much greater than it was before the war. Now assuming that the depreciation, when the conditions have somewhat improved, can be taken as $\frac{1}{3}$ rd. or $\frac{1}{4}$ th. of the former value, the circulation can then without difficulty continue to be 3 to 4 times what it was before the war, even if one does not take into account the fact that the prices of the goods have increased owing to causes attached to the goods themselves (shortage), which in itself would necessitate a greater circulation of payment media. Under the circumstances one would even be justified in saying that a circulation of 5 to 6 times the pre-war figures could not for the present be considered abnormal.

Every effort should, however, be made to bring, side by side with the paper Crown, a gold Crown into general use. This can only be done by temporarily creating a fresh credit for Austria, which will require the help of foreign countries. It seems to me that the best method will be as follows:

A new Bank of Issue should be established and this Bank should take exclusively the gold Crown as its basis for its own business. The Bank will therefore permit of the opening of accounts with the Bank in gold Crowns. Now if a foreigner wishes to advance a credit to an Austrian the former will calculate that credit in the form of goods,

materials, etc. which will only be paid at some later date, the goods will be invoiced in gold Crowns; the Austrian therefore accepts the liability to pay, after a certain period, say 3 or 6 months to 1 year, the amount in gold Crowns to the party who granted him the credit; he may even accept a bill to that effect which may be declared discountable in the trade. The Austrian will naturally only be granted this credit if he can make plausible that he will be in a position to repay the sum when the credit matures. The Austrian may, amongst other ways, do this by manufacturing to a finished product the raw materials supplied to him on credit, which he could then again supply to foreign countries. If this is done he will in the meantime have been able to pay his workmen and on the delivery of the articles finished by him to foreign countries he will receive sufficient counter value to cover all his expenses, to pay his debt for the materials supplied on credit, and a surplus of profit will remain which permits him to form fresh capital. His account with the bank will therefore eventually show a credit balance against which he can purchase fresh materials, etc.

If many Austrians, each in their trade and industry, act in this manner they will, if at first assisted by credits from abroad, all together be able to save a considerable capital annually, which can be expressed in gold Crowns. They can all, and with them all their co-operators, both intellectual and manual, join in fresh savings and the formation of new capital, which is in glaring contrast with the

method followed during the war and after the armistice, when money was wasted and capital destroyed on a huge scale.

This financial reconstruction may also be greatly assisted on other lines. The foreign countries might begin by generously supplying the new Bank of Issue with funds, both by putting up the share capital and by placing other funds abroad at the Bank's disposal, as f.i. the £ sterling in England, the dollar in America and Guilders in Holland. The new Bank of Issue could then advance its own credits in gold Crowns which the Austrian producers might require to resume work. The Bank could in this way draw upon the funds placed at its disposal in England in £ for the payment of the raw materials to be supplied by England.

The new Bank of Issue could thus immediately set a gold-exchange system into operation. The Bank could even go as far as to bring its own notes, made out in gold Crowns, into circulation in Austria against the cover of the funds placed at its disposal in other countries. The Bank will however only be able to do this if it will take the greatest possible care that its gold Crown notes in Austria are only issued for productive purposes, so that only real negotiable value in goods and products will stand against the notes issued. The Bank will therefore have strictly to guard against the notes issued by it being used for loans to Governments and Corporations etc. which would again serve to increase the artificial purchasing capacity. If this is done, the new Bank will in a very brief space of time be dragged down into the same bog and would no longer be able to answer its purpose.

On the other hand the Bank will also have to take steps to prevent its balances abroad from being liable to the depreciation of the foreign currency; it will for instance have to negotiate with the foreign banks of issue with a view to obtaining the capital to be eventually furnished in a gold deposit.

Absolutely independent persons must be placed at the head of this Bank, and it might even be considered wise to establish this Bank by international co-operation and under international management, as was done in the case of the Bank of Algeciras in Morrocco.

The connection between this Bank and the former Austro-Hungarian Bank could be affected in two ways:

In the first place that one or more of its managers should represent it on the liquidation committee of the Austro-Hungarian Bank;

In the second place that it would, on request, be permitted to open accounts in paper Crowns of the said Austro-Hungarian Bank.

This latter operation could be done in the same way as all European banks open accounts for their clients in foreign currency, and as in the Far East the banks also open accounts in silver sycee or in special dollars; in other words, the value of these accounts is entirely at the charge and risk of the customer. Moreover, the Bank itself may not hold these paper Crowns, unless it be by way of purchase against which it shall cover itself by a

sale the very same day. The Bank will therefore have to look upon and treat these paper Crowns very much in the same way as ordinary banks handle foreign currencies in their operations. In this manner the new Bank of Issue will nevertheless be able to render extremely valuable services and facilitate settlements, transfers and clearing in paper Crowns without itself running any risk whatsoever.

The Austro-Hungarian Bank will have to continue with the gradual liquidation of its own affairs, also under the supervision of the new Bank of Issue. Paper Crowns may naturally also be used to pay the former bank its claims, which will also be a factor towards reducing the number of paper Crowns in circulation. If the Austrian nation again sets to work it will ultimately be able to redeem a part of the national debt by means of the taxes it will yield; even the payment of these taxes could be largely effected in paper Crowns and the State could use these paper Crowns to redeem its notes from the Austro-Hungarian Bank and others. In this way the amount of the outstanding notes in paper Crowns will diminish in course of time, until at a given moment the paper Crowns in circulation can be considered not to exceed the actual needs of trade, naturally taking any depreciation then still prevailing into account.

When that moment has arrived one can seriously think of taking the further liquidation in hand as a whole. The Austrian Government will, if in the course of years its credit has been sufficiently restored by the fact that its

subjects have resumed their industrious habits and the Government itself has ceased its extravagant expenditure, with the result that its budget will again truly balance, be able to issue a new gold loan, the interest and amortization of which will be payable in the gold Crowns of the new Bank of Issue. With the gold notes thus obtained it will ultimately be able to redeem all its bonds from the Austro-Hungarian Bank at such a rate of the gold Crown to the paper Crown as may prove to be the current value of the latter at that moment. It is not at all impossible that the value of the paper Crowns then still outstanding has considerably increased as compared with their price in international traffic at the present moment. All notes in paper Crowns of the Austro-Hungarian Bank can then be withdrawn in exchange for gold notes in the same proportion.

Until however this moment definitely arrives the paper Crowns of the Austro-Hungarian Bank and the gold Crown of the new Bank of Issue will have to circulate quite independently side by side, just as if they were currencies foreign to each other. During the whole of this period no direct connection may be made between them in order to avoid the possibility of the gold Crown being dragged down from its pure and solid standpoint to the level of the paper Crown.

Prof. Dr. Landesberger, in the *Neue Freie Presse* of October 19, 21 and 22, 1919 expounded a system for the

solution of the banking and exchange problem in Austria, in which many similar ideas are put forth. I have read this exposé with great interest especially as I saw that we had, on several main points, similar arguments and had reached similar conclusions. I deduce however from the learned writer's proposal, that he would like to see an earlier exchange of the notes of the Austro-Hungarian Bank into the notes of the new Bank of Issue, whereas on the other hand, I must express a grave warning against this being done.

In the years 1911/12 having, at the request of the Four Power Syndicate (United States of America, England, France and Germany) been appointed Monetary Adviser to the Chinese Government, I pointed out in my „On Chinese Currency” Vol. I and II (published by J. H. DE BUSSY, Amsterdam) that we find conditions in China which show some resemblance to those causing the Austrian problem, in that currency of the interior cannot be used for foreign exchange, i. e. settlements with foreign countries. I then elaborated a similar system on behalf of China for the creation of a new bank of issue, which would also partly stand under foreign management, and which was at the same time to create a new gold unit for trade between China and other countries, which gold unit would eventually come into circulation in China itself too. On this occasion I also uttered a warning against any excessive haste in having the existing circulation too swiftly superseded by the new gold unit, before the circumstances were ready for such a change.

Further, I called attention to the fact that in Oriental countries more than one case is to be met with in which circulation media, based on different currency and banking systems, are in circulation side by side. Even in the Netherlands Indian Colonies we have most instructive examples and in my former capacity of President of the Java Bank I myself had to regulate the transfer into circulation of notes and coin to the simple gold standard when the conditions in the various districts were ripe for the change. This arrangement in our Colonies ultimately led to a most satisfactory result, in spite of the manifold problems arising from difference in nationality and customs of the various Asiatic tribes.

In the case of Austria I would therefore advise that great caution should be exercised with regard to the definite reintroduction of a new gold Crown as the only medium of circulation. It does not seem to me impossible for Austria to have two different systems of currency and banking in use simultaneously.

If Austria should in the future proceed to withdraw these paper Crowns, she will have to include in the arrangement the bonds which were issued against payment of the former Crown notes. The principal of these bonds will then have to be reduced to a capital in new gold Crowns in the same proportion as is used in the exchange of the paper Crowns against gold notes, and the interest will, after such endorsement, also be payable in gold Crowns at the reduced amount.

On withdrawing the paper Crowns the prices of goods and wages will naturally have to be fixed at new figures in gold Crowns. It seems to me that this measure need not be so difficult to carry out, seeing that everybody will gradually have become familiar with the idea that there is a double currency in the country, and they will certainly have observed that for a gold Crown they will actually receive several times the quantity of goods they would be able to buy for paper Crowns. The prices of goods in the new gold Crowns will then no longer be quoted at such a high figure, so that the terrifying figures will disappear.

Some difficulty will naturally again arise with border cases, such as salaries and prices which had not greatly risen in paper Crowns; we might quote as an example the salaries of schoolmasters, and the railway fares; in the new gold Crown these will have to be fixed again at about the same normal height, which will also put an end to the anomalous position that these had fallen too low, taking the depreciation of the paper Crown into consideration. Some difficulty may also for a time be experienced in the settlement of debts, though even this difficulty is not unsurmountable; a fall in the value of the Crown was to the disadvantage of the creditor, any recovery or rise to his advantage. These conditions have so frequently occurred in countries with a silver standard, especially Asiatic countries, that sufficient experience has been acquired how one must act in such cases. One could if necessary prescribe

a further taxation of the value of the debts by legislation.

I have paused rather at length over Austria because the course of affairs in that country are so instructive for the estimation of the conditions in all other countries, and also because Austria now most urgently requires that something should be done to relieve her painful circumstances.

Steps of a nature more or less similar to those taken with regard to Austria will however also have to be taken on behalf of other countries. In Germany for instance an excessive amount in Marks has also been issued, the greater part of them when the Mark had already been depreciated. The holders of Marks acquired after the depreciation became operative have therefore no claim to repayment on the basis of the gold Mark.

In Germany we also find the position such that the Mark can no longer serve as a medium of payment to foreign countries, so that other measures are also required there, in the first place the organization of barter trade with foreign countries, the creation of a new gold Mark as a unit of account, the advance of credit by foreign countries on the basis of the gold Mark and, as far as possible, the withdrawal of the Markscheine against a long period Government Debt. This latter has, in one instance, already been done. During the occupation of Belgium Germany had forced her own Mark money upon the conquered territory, and had received the countervalue for them in the form of all kinds of goods and services on the basis of the Franc; it was therefore obvious that

Germany would have to take these Marks back at the rate of Frs. 1.25 the Mark. Now Germany has given a 5 % loan with a period of 20 years against the Markscheine still held by Belgium; the loan is in Marks, but the value of these Marks has been guaranteed by Germany at the parity with the Belgian Franc.

A commencement has therefore been made in Germany with the withdrawal of notes not in actual circulation. If Germany wishes to pursue this road successfully it will however have to stop the further creation of artificial purchasing power and consequently the further issue of Markscheine, otherwise than against really existing value. If Germany does not realize this in time, the famine, exhaustion and general downfall, which now threatens Austria, may be expected to overtake Germany also.

As to other countries the picture is not so clear as in the case of Germany and Austria; in some of them the value of their own currency has also considerably depreciated, and the question is raised whether one ought not to openly and publicly admit the conditions which actually exist, viz. that the gold unit of account has disappeared and that a paper one, different from the former gold one, has come into existence. In some of the other countries they will certainly have to adopt this method of solving the problem of the excessively inflated prices and wages; it is obvious that if the depreciation of the money had not proceeded so far, there would have been no reason for the enhan-

cement of the prices and wages to such a level as is actually seen. For such a country it will, with these high prices and wages, ultimately be impossible to compete in the world's markets, and a large part of its industry and production will have to be stopped, with the resulting increase of unemployment, which in the end will naturally again bring down the wages. Such a country would then however have to pass through a series of necessary hardships, involving great misery for many of its inhabitants. It would therefore be wise to look these causes and effects bravely in the face and to take in time the steps which common sense dictates, in order to allow the new state of things to come about without shock or dislocation, which otherwise will certainly come in spite of the will of the groups concerned.

A few other countries have also seen how their currencies have been somewhat disorganized owing to the present economic situation, though the adverse effects have not yet gone so far that a severe depreciation has arisen by causes on the part of the money. Several of the neutrals can be counted among these.

In all these countries one will have to enquire whether the prices of the goods have increased owing to causes in the goods themselves (shortage, difficulties of production, high costs of transport) or to causes embodied in the money, or even owing to both causes together, in which case one will have to ascertain which of the two has

had the greater influence. In Germany, Austria and Russia, for instance, the excessive creation of purchasing power has been the principal cause of the prices being forced up; in the neutral countries on the other hand, shortage has aided the increase most. The condition of their currency does not therefore require the neutrals to take such steps as described above; if they can again resume their work and recommence exporting to countries vis-à-vis of which their balance of trade is unfavourable for the time being, their exchange will again rise. Under one express condition however: that their Governments and Corporations shall also cease to create artificial purchasing power and that a price basis for goods and labour shall cautiously be introduced, without too great a delay. When estimating the volume of their issue of circulation media, two facts will certainly have to be taken into account, viz. that the prices of goods probably to a considerable extent have increased owing to a cause in the goods themselves (shortage, high cost of transport etc.) and that a portion of the circulation is being hoarded or has been removed to escape taxation („Steuerflucht“) and does not therefore actually form part of the circulation. If various of these influences disappear, the issue of the circulation-media will be reduced by this reason also. A strong taxation to make good the expenditure during the war will, if wisely applied, also assist in this direction.

I should like to call attention to a special point, which again concerns Germany.

We have seen that in this country considerable increases in the capital of large concerns have repeatedly taken place during the last few months, by means of issues on the open market in Marks. These concerns thus receive these new Marks in the depreciated value of this medium of payment. This involves a grave watering down of the capital, greatly to the disadvantage of the old shareholders, who formerly contributed to the capital in gold Marks, unless of course the new shares are issued at a very high premium, which is not the case. We have here therefore not only an unfairness towards certain groups of old shareholders, but a much greater economic disadvantage, viz. that the object of increasing the strength of the concern by increasing the capital has failed entirely. For the reconstruction of a country after the losses of war, which is surely the object here, such a method is, to put it mildly, unwise. The new issues of shares should take place either in gold Marks, by means of warrants on which the dividend would also be payable on the gold Mark basis, or it should expressly have been stated that the issue was made in paper Marks and that the dividend on those shares would also be paid in paper Marks only, or in the value which might eventually supersede these paper Marks. In the way the issues have now taken place, they can only lead to further weakening of the country's position.

CHAPTER V.

International Co-operation indispensable.

The question is now, how is it possible to adopt these ways and means of reconstruction?

That all creation of artificial buying power (I) is to stop must be accepted as fundamental principle by those countries which are still guilty of this abuse. They must do so by revising their actions and their economic policy. When doing so they will probably require the assistance of foreign countries in order to enable them successfully to combat the high cost of living within their own territories.

The institution of an organized system of barter (IV) can be brought about even between two countries; the extension of such a barter organization to more than two countries may also be aimed at by the co-operation of *several* countries *separately*.

However useful and even necessary the taking of steps in both these directions may be, they alone are not efficacious enough to solve the general chaos. More drastic measures will be needed, viz. revision of the debts (II) and a general international credit organization (III).

This can only be done by the generous co-operation of *many* countries.

It is obvious that many of them will be involved in the revision of the debts, and each of them individually will consider it of vital interest to know to what extent they can count on making good their claims. It is not only in the debtor's interest but also in that of the creditor, for the latter will in the end also suffer not only because his debtor will not have been able to pay his debts, but because this unbearable load of debt will prevent the debtor from picking up strength again and will finally crush him both as purchaser from and as supplier of goods to the creditor.

The credit organization more particularly can only, under the present circumstances of the world, be brought about by the co-operation of *many* countries.

This is not only due to the fact that colossal sums will be involved, but also in view of another reason which particularly must not be lost sight of. The case will certainly occur, has, indeed, already occurred, that a group in one of the lesser countries, among the neutrals for instance, is prepared to grant considerable credit to the inhabitants of other countries who urgently need this help. The smaller country cannot and may not, however, grant such credit if it runs the risk of being, at some subsequent date, pushed aside by some greater country or new lender of credit, after it has already given its good services. Even private lenders in mighty America may find them-

selves placed in the same difficulty. In trade generally credits are frequently given either on condition that special security is provided in the form of some pledge or mortgage, or on condition that if these special sureties are not demanded, the debtor may not give any other party preference over his assets.

How can one now proceed to advance large sums on credit if there is a great likelihood that a subsequent and stronger lender may demand and obtain special privileges or pledges for himself alone, to the detriment of those who had been, from the very first, prepared to render assistance? In the case of Germany the case is even more difficult because the amount of the indemnity which this country will have to surrender has not even been fixed. This will render things doubly difficult, especially as long as the Commission des Réparations has the power of seizing property, or goods ready for export, etc. to the disadvantage of lenders in other countries; and the Commission des Réparations can do this by virtue of the very extensive powers vested in it by the terms of the Peace Treaty. How can one expect that a neutral or even an allied lender will be willing to advance credit if the requisition of goods always hangs over his debtor's head just as if the war was still going on, and the lender sees the pledge, which he imagined was his, demanded by another.

The parties advancing credit can only come to an arrangement if they are absolutely satisfied that their claims

will rank with those of more powerful and later lenders, and if they can be assured that their debtor will not be sucked dry before their eyes on behalf of others. One must now know whether one can work at peace conditions or whether it can be feared that on any moment we might re-enter war-conditions, much to the detriment of those who are now prepared to assist in the reconstruction of the shaken world. If it is now genuinely desired that peace should once more reign upon earth, one must also accept the consequences and provide the rest and guarantees necessary for the renewed development of international trade. Only along this road can the countries which have been ravaged by war approach the recovery of rest and prosperity, and only by this means will they ever be able to pay off their debts. If this is not realized in time, the general ruin of Europe will be inevitable.

Only by an extensive international consideration and conference will the way be opened for granting these new credits and for the reconstruction of the world. And *this* conference will now also have to include the neutrals because they are in a position, and will certainly be prepared, in proportion to their resources, to hold out the helping hand. The neutrals themselves may be small and weak in comparison with the greater states, but they have not suffered so much from the war as these great countries and all together they can, also by the great variety of their producing power, certainly afford considerable aid to the larger countries so enfeebled by the war. On

this point the neutrals will have to confer with others, and also with each other, because they will certainly have to supply other countries with goods on credit, if they do not wish to see the output of their own export goods reduced to a standstill, with the consequent misery for their own nations.

An international conference, on a broad basis, must now therefore be made possible, not in the first place in order to lay down terms of peace and indemnities, but in order to prepare a common action towards reconstruction of the world. Not generals and statesmen must here be heard in the first place, but economists and bankers.

Briefly recapitulating, we can therefore say that the following steps should be taken:

(a) at their own initiative and relying on their own efforts:

1. Each country individually should take steps to make an end of the senseless creation of artificial buying power; this must be done before any other reconstructive act, because such reconstruction is absolutely unachievable unless this evil is not primarily suppressed.

2. Several countries will jointly have to come to an arrangement for the organization of an interstate system of barter. The countries with a deeply depreciated exchange should themselves take the initiative in conjunction with their neighbours who are still able to supply on credit. If the countries with a depreciated exchange delay

any longer before taking steps in this direction, the neutrals will then also have to assume the task. Here in the Netherlands we intend, in the course of the next few weeks, to create an organization which will undertake this function with the neighbouring countries, in the hope of producing some result by means of this initiative.

(b) in co-operation with many countries:

3. The revision of the debts will have to be considered. This will for many undoubtedly be a very delicate point. If they do not now bravely face this problem, it will in a few years' time rise up as a crying need before the horrified eyes of the world, when irresolution and hesitation to look things in the face have brought far greater disorganization and misery upon mankind.

4. The problem of the granting of credit in general will have to be considered internationally, in order eventually to permit the granting of credit by countries separately and their citizens individually.

For the measures described under 3 and 4, international collaboration is indispensable and public opinion in various countries is clamouring more and more for action to this end.

It is therefore to be hoped that an international conference to take the necessary steps will no longer be delayed.

The governments of the various countries should take the initiative towards this end. If for state or political reasons the governments cannot take the first step in this

direction, we trust that bankers and leading businessmen in the various countries will be able to meet and submit the matter to general discussion, with a view to preparing a scheme of collaboration.

Soon, very soon, for owing to hesitation and delay the need is in many countries most urgent and imperative. In some of them it can be plainly seen, while in many others it is already perceptible to those who have the courage to look at things in the right light.

CHAPTER VI.

An International Address.¹⁾

An attempt has already been made to attain some degree of organization in this direction.

Since the spring in Holland many private conferences have been held with influential foreigners on the question of how the injurious effects of the war could be removed, and subsequently we had the privilege of uniting several well-known economists from the United States, England and France at a meeting held at Amsterdam on October 13th. and 14th. last.

After mature consideration all those present found that

¹⁾ In the preceding chapters the author has put down his own personal opinions and he alone therefore is responsible for the views therein stated and the conclusions drawn from them. This is explicitly mentioned here because this chapter VI contains the substance of a memorandum which was drawn up by the collaboration of several persons from various countries, and which therefore reproduces the collective opinion of these several persons. Now that this memorandum is combined in one book with the author's views, he feels it his duty to put on record that the persons who assisted in drawing up the memorandum are not bound in any way whatsoever by the author's personal views, and he particularly wishes to avoid even the appearance of having spoken in this book, in the name of other collaborators of that memorandum.

they agreed as to the main principles on which normal conditions could ultimately be brought back to the countries ravaged by the war and those whose economic life, though in a lesser degree, has been disorganized by the war. The persons present however considered that they ought to submit the provisional results of their discussions to the opinion of persons from the nearest neutral countries who, we hoped, would be prepared and able to continue the discussion at Amsterdam a few weeks later. At the joint invitation of those present at the meeting of October 13/14, certain persons from Sweden, Norway, Denmark and Switzerland took part in the continued discussion on the 2nd. and 3rd. of November.

Most of these gentlemen had, each on behalf of their own country, been present at the prolonged deliberations on the Peace terms held in Paris during the early months of 1919. They came to Amsterdam, however, without any official instructions whatsoever hence only as private individuals. In view of their former function they could however, be considered to have obtained a clear insight into international conditions.

It was to our great satisfaction that also this second and larger meeting arrived at an agreement with regard to several of the main principles on which we should work towards restoration.

These discussions naturally had to take place privately, especially as they bore no official character whatsoever.

Every opinion therefore expressed at or by the confe-

rence retained a strictly personal character; the individual and personal authority that one might assume each of those present to possess in his own country, was a guarantee that the expression of such an opinion in each of those countries would not pass unnoticed.

It has, on principle, been decided to publish simultaneously in the countries of those persons, who met at these conferences, a number of these main principles, laid down in a memorandum which had been prepared jointly by the persons above mentioned. The main object was however to express in most urgent terms the general desire that a great international conference should be called together, in order to thus lay the foundation for a broader international co-operation towards the reconstruction of the greatly shaken social edifice in practically every country.

It was disappointing that the publication of the views of the conference of November 2nd. and 3rd. had to be postponed for some time in connection with the political events in various countries, as the conference above all wished to avoid the appearance of exercising any influence whatsoever on these political events.

This memorandum has been published in the form of a question and, to a certain extent, in the form of an international advice, and has been addressed in each country by the signatories to their own Government ¹⁾;

¹⁾ See the note on following page.

in each country the memorandum has been signed by a limited number of persons in that country, amongst which members of the conferences of October 13/14 and Nov. 2/3.

It has also been published in some neighbouring countries of which no person was present at these private conferences.

The memorandum has been published in most of these countries on Thursday, January 15, 1920 (in England on the 16th, and in France some days later).

1) In the United States of America the memorandum has, with a view to local conditions, not only been handed to the Government, but also to the Commission des Réparations and to the Chamber of Commerce of the United States. Accordingly the first sentence, in America, runs as follows:

The undersigned individuals beg leave to lay before their Government, the Reparations Commission, and the Chamber of Commerce of the United States, the following observations, and to recommend that the Chamber of Commerce of the United States designate representatives of Commerce and Finance to meet forthwith (the matter being of the greatest urgency) with those of other countries chiefly concerned, which should include the United Kingdom and the British Dominions, France, Belgium, Italy, Japan, Germany, Austria, the neutral countries of Europe, the United States, and the chief exporting countries of South America, for the purpose of examining the situation briefly set forth below and to recommend upon the basis of authentic information what action in the various countries is advisable among the peoples interested in reviving and maintaining international commerce.

The memorandum runs as follows: ¹⁾

The undersigned individuals beg leave to lay before their Government, a proposal that the Governments of the countries chiefly concerned, which should include the United States, the United Kingdom and the British Dominions, France, Belgium, Italy, Japan, Germany, Austria, the Neutral countries of Europe and the chief exporting countries of South-America, should be invited forthwith (the matter being of the greatest urgency) to convene a meeting of Financial representatives, for the purpose of examining the situation, briefly set forth below, and to recommend, in the event of their deciding that co-operative assistance is necessary and advisable, to whom and by whom assistance should be given and on what general conditions.

They venture to add to the above recommendation the following observations:

The war has left to conqueror and conquered alike the problem of finding means effectively to arrest and counteract the continuous growth in the volume of outstanding money and of Government obligations, and, its concomitant, the constant increase of prices. A decrease of excessive consumption and an increase of production and taxation are recognized as the most hopeful, — if not the only, — remedies. Unless they are promptly applied, the depreciation of money, it is to be feared, will continue, wiping out the savings of the past and leading to a gradual but

¹⁾ Regarding United States, see note on preceding page.

persistant spreading of bankruptcy and anarchy in Europe.

There can be no social or economic future for any country, which adopts a permanent policy of meeting its current expenditure by a continuous inflation of its circulation and by increasing its interest-bearing debts without a corresponding increase of its tangible assets. In practice every country will have to be treated after careful study and with due regard to its individual conditions and requirements. No country however, is deserving of credit, nor can it be considered a solvent debtor, whose obligations we may treat as items of actual value in formulating our plans for the future, that will not or cannot bring its current expenditure within the compass of its receipts from taxation and other regular income. This principle must be clearly brought home to the peoples of all countries; for it will be impossible otherwise to arouse them from a dream of false hopes and illusions to the recognition of hard facts.

It is evident that Germany and Austria will have to bear a heavier load than their conquerors, and that, in conformity with the Treaty of Peace, they must bear the largest possible burden they may safely assume. But care will have to be taken that this burden does not exceed the measure of the highest practicable taxation, and that it does not destroy the power of production, which forms the very source of effective taxation. For the sake of their creditors and for the sake of the world, whose future social and economic development is involved, Germany and Austria must not be rendered bankrupt. If, for instance upon close

examination, the Commission des Réparations finds that, even with the most drastic plan of taxation of property, income, trade and consumption, the sums that these countries will be able to contribute immediately towards the current expenses of their creditors will not reach the obligations now stipulated, then the Commission might be expected to take the view that the scope of the annual contribution must be brought within the limits within which solvency can be preserved, even though it might be necessary for that purpose to extend the period of instalments. The load of the burden and the period during which it is to be borne, must not, however, exceed certain bounds; it must not bring about so drastic a lowering of the standard of living that a willingness to pay a just debt is converted into a spirit of despair and revolt.

It is also true that amongst the victorious countries there are some whose economic condition is exceedingly grave, and who will have to reach the limits of their taxings-powers. It appears therefore to the undersigned, that the position of these countries, too, should be examined from the same point of view of keeping taxation within the power of endurance, and within a scope that will not be conducive to financial chaos and social unrest.

1) The world's balance of indebtedness has been upset and has become topheavy and onesided. Is it not necessary

1) In America the paragraph beginning with the words: "The world's balance of indebtedness" and winding up with the words: "towards a cure?" have been left out.

to free the world's balancesheet from some of the fictitious items which now inflate it and lead to fear or despair on the part of some, and to recklessness on the part of others? Would not a deflation of the world's balance-sheet be the first step towards a cure?

When once the expenditure of the various European countries has been brought within their taxable capacity, (which should be a first condition of granting them further assistance), and when the burdens of indebtedness, as between the different nations, have been brought within the limits of endurance, the problem arises as to how these countries are to be furnished with the working capital necessary for them to purchase the imports required for re-starting the circle of exchange, to restore their productivity, and to reorganize their currencies.

The signatories submit that, while much can be done through normal banking channels, the working capital needed is too large in amount and is required too quickly for such channels to be adequate. They are of opinion therefore that a more comprehensive scheme is necessary. It is not a question of affording aid only to a single country, or even a single group of countries which were allied in the war. The interests of the whole of Europe and indeed of the whole world are at stake.

It is not our intention to suggest in detail the method by which such international co-operation in the grant of credit may be secured. But we allow ourselves the following observations:

1. The greater part of the funds must necessarily be supplied by those countries, where the trade balance and the exchanges are favourable.
2. Long term foreign credit, such as is here contemplated, is only desirable in so far as it is absolutely necessary to restore productive processes. It is not a substitute for those efforts and sacrifices on the part of each country, by which alone they can solve their internal problem. It is only by the real economic conditions pressing severely, as they must, on the individual that equilibrium can be restored.
3. For this reason, and also because of the great demands on capital for their own internal purposes in the lending countries themselves, the credit supplied should be reduced to the minimum absolutely necessary.
4. Assistance should as far as possible be given in a form which leaves national and international trade free from the restrictive control of Governments.
5. Any scheme should encourage to the greatest extent possible the supply of credit and the development of trade through normal channels.
6. In so far as it proves possible to issue loans to the public in the lending countries, these loans must be on such terms as will attract the real savings of the individual; otherwise inflation would be increased.

7. The borrowing countries would have to provide the best obtainable security. For this purpose it should be agreed that:
 - a. Such loans should rank in front of all other indebtedness whatsoever, whether internal debt reparation payments or interallied governmental debt.
 - b. Special security should be set aside by the borrowing countries as a guarantee for the payment of interest and amortization, the character of such security varying perhaps from country to country, but including in the case of Germany and the new States the assignment of import and export duties payable on a gold basis, and in the case of States entitled to receipts from Germany, a first charge on such receipts.

The outlook at present is dark. No greater task is before us now, than to devise means by which some measure of hopefulness will re-enter the minds of the masses. The re-establishment of a willingness to work and to save, of incentives to the highest individual effort and of opportunities for every one to enjoy a reasonable share of the fruit of his exertions must be the aim towards which the best minds in all countries should coöperate. Only if we recognize that the time has now come when all countries must help one another, can we hope to bring

about an atmosphere, in which we can look forward to the restoration of normal conditions and to the end of our present evils.

In conclusion the signatories desire to reiterate their conviction as to the very grave urgency of these questions in point of time. Every month which passes will aggravate the problem and render its eventual solution increasingly difficult. All the information at their disposal convinces them that very critical days for Europe are now imminent and that no time must be lost if catastrophes are to be averted.

In the various countries the signatories to the memorandum have been the following persons:

AMERICA. (UNITED STATES OF)

WILLIAM H. TAFT, *Former President of the United States.*

ELIHU ROOT, *Former Secretary of State, and ex-Senator.*

HERBERT HOOVER, *Former Director U. S. Food Administration.*

MYRON T. HERRICK, *Former Ambassador to France.*

HARRY A. WHEELER, *Former President United States Chamber of Commerce, and Chairman International Trade Conference of U.S. Chamber of Commerce.*

ALFRED E. MARLING, *President New-York Chamber of Commerce.*

WILLIAM FELLOWES MORGAN, *President New-York Merchants Association.*

FRANK A. VANDERLIP, *Chairman Banking Committee New-York Chamber of Commerce.*

- PAUL M. WARBURG, *Chairman Acceptance Council and Committee on Banking of New-York Merchants Association, and former vice Governor Federal Reserve Board.*
- R. S. HAWES, *President American Bankers Association.*
- JAMES A. STILLMAN, *President National City Bank of New-York.*
- A. BARTON HEPBURN, *Chairman Chase National Bank, New-York.*
- CHARLES H. SABIN, *President Guaranty Trust Cy., New-York.*
- L. L. RUE, *President Philadelphia National Bank.*
- JAMES B. FORGAN, *President First National Bank, Chicago.*
- FESTUS J. WADE, *President Mercantile Trust Company St. Louis.*
- F. O. WATTS, *President Third National Bank, St. Louis.*
- JOHN SHERWIN, *President First National Bank, Cleveland.*
- A. W. MELLON, *President Mellon National Bank, Pittsburgh.*
- EMORY W. CLARK, *President First and Old Detroit National Bank.*
- FREDERICK H. RAWSON, *President Union Trust Cy., Chicago.*
- R. G. RHETT, *President Peoples National Bank, Charlestown, South Carolina, Cleveland.*
- H. DODGE, *Partner Phelps Dodge Corporation, New-York.*
- DARWIN P. KINGSLEY, *President New-York Life Insurance Cy.*
- CHARLES W. ELIOTT, *President emeritus Harvard University.*

ARTHUR T. HADLEY, *President Yale University.*

H. P. JUDSON, *President University Chicago.*

EDWIN A. ALDERMAN, *President University of Virginia.*

EDWIN R. A. SELIGMAN, *Professor Economics, Columbia University.*

F. W. TAUSSIG, *Professor Economics Harvard University.*

SAMUEL REA, *President Pennsylvania Railroad Cy.*

LOUIS W. HILL, *Chairman Great Northern Railroad Cy.*

DANIEL WILLARD, *President Baltimore and Ohio Railroad Cy.*

GEORGE H. Mc. FADDEN, *Partner G. H. Mc. Fadden & Brother, Philadelphia.*

JULIUS H. BARNES, *Partner Barnes Ames Co., and Director U. S. Grain Corporation.*

JOHN G. SHEDD, *President Marshall Field Company, Chicago.*

JACOB H. SCHIFF, *Partner Kuhn Loeb & Co., New-York.*

GEORGE M. REYNOLDS, *Chairman Continental and Commercial National Bank, Chicago.*

ROBERT L. BROOKINGS, *President Board Trustees Washington University St. Louis.*

A. L. MILLS, *President First National Bank Portland Oregon.*

FRANK B. ANDERSON, *President Bank of California San Francisco.*

HERBERT FLEISCHHACKER, *President Anglo and London Paris National Bank San Francisco.*

HENRY SUZALLO, *President University of Washington Seattle.*

J. P. MORGAN, *Partner of J. P. Morgan and Company, New-York.*

DENMARK.

- C. C. ANDERSEN, *Chairman of the Socialistic Party in the Landsting (Upper House).*
- F. I. BORGBJERG, *Member of the Committee of the social group of the Rigsdag (parliament).*
- I. C. CHRISTENSEN, *Chairman of the Venstre (liberal) Party of the Folketing (Lower House).*
- C. C. CLAUSEN, *Chairman of the Merchants' Guild.*
- C. M. T. COLD, *Chairman of the Danish Steamship Owners Society.*
- A. FOSS, *Chairman of the Board of Industry.*
- E. GLUECKSTADT, *Managing Director of the Danske Landmandsbank.*
- J. KNUDSEN, *Chairman of the Conservative Party in the Folketing.*
- M. MYGDAL, *President of the board of Agriculture.*
- A. TESDORPF, *President of the board of Agriculture.*
- A. NIELSEN, *President of the board of Agriculture.*
- J. P. WINTHER, *Managing Director of the Nationalbanken in Kopenhagen.*
- J. LAUREDSSEN, *Managing Director of the Nationalbanken in Kopenhagen.*
- C. USSING, *Managing Director of the Nationalbanken in Kopenhagen.*
- M. RUBIN, *Managing Director of the Nationalbanken in Kopenhagen.*
- W. STEPHENSEN, *Managing Director of the Nationalbanken in Kopenhagen.*
- J. PEDERSEN, *Chairman of the Venstre Party of the Landsting.*
- E. G. PIPER, *Chairman of the Conservative Party of the Landsting.*

C. SLENGERIK, *Chairman of the Radikal Venstre Party of the Folketing.*

H. TRIER, *Chairman of the Radikal Venstre Party of the Landsting.*

FRANCE.¹⁾

RAPHAEL GÉORGES LÉVY, *Economiste, Sénateur.*

DARCY, *Président du Comité des Houillères de France.*

ROGER LEHIDEUX, *Président de l'Union Syndicale de Banquiers de Paris et de la province.*

PETIT, *Président Tribunal de Commerce.*

CHARLES LAURENT.

DE WENDEL.

GREAT-BRITTAİN.

Sir RICHARD VASSAR—SMITH. Bart., *Chairman of Lloyds' Bank Ltd.*

Lord INCHCAPE G. C. M. G., K. C. S. I., *Chairman of the National Provincial and Union Bank Ltd., and Chairman of the Peninsula and Oriental Steam Navigation Co.*

WALTER LEAF Esq., *Chairman of the London County and Westminster Bank Ltd.*

¹⁾ The French signatories have prefixed the following reservation to their signatures:

„Il est bien entendu q'un délai raisonnable doit être accordé à
„chaque pays pour ramener ses dépenses courantes au niveau de
„ses recettes provenant des impôts ou d'autres sources normales de
„revenus et que les recommandations sub a. du paragraphe 7 ne
„peuvent recevoir d'application pour chaque cas particulier que
„dans la mesure où elles sont conciliables avec la solidité et
„l'ancienneté du crédit des états”.

F. C. GOODENOUGH Esq., *Chairman of Barclay's Bank Ltd.*

The Right Hon^{ble} REGINALD Mc. KENNA P.C., *Chairman of the London Joint City and Midland Bank Ltd.*

Sir ROBERT KINDERSLEY K. B. E., *Chairman of the National Savings Committee, Director of the Bank of England, Partner of Lazard Bros & Co. Ltd.*

Sir CHARLES ADDIS, *Chairman of the Hongkong and Shanghai Banking Corporation Ltd., Director of the Bank of England.*

EDWARD C. GRENFELL Esq., *Senior Partner of Messrs. Morgan Grenfell & Co. Ltd., Director of the Bank of England.*

The Hon^{ble} ROBERT H. BRAND, C. M. G., *Partner of Lazard Bros & Co. Ltd., Director of Lloyds' Bank Ltd.*

The Right Hon^{ble} Lord ROBERT CECIL P. C., K. C., *Formerly Chairman of the Supreme Economic Council of the Allies, Formerly Assistant Secretary of State for Foreign Affairs.*

The Right Hon^{ble} H. H. ASQUITH., P. C., *Formerly Prime Minister.*

The Right Hon^{ble} Sir DONALD MACLEAN K. B. E., *Leader of the Liberal Party in the House of Commons.*

The Right Hon^{ble} J. H. THOMAS, M. P., *Leader of the Labour Party.*

The Right Hon^{ble} J. R. CLYNES, M. P., *Leader of the Labour Party.*

VISCOUNT BRYCE, G. C. V. O., O. M., *Formerly Ambassador to the United States.*

NETHERLAND.

Dr. G. VISSERING, *President of "The Netherlands Bank."*

C. E. TER MEULEN, *Banker, Member of the Firm Hope & Co.*

JOOST VAN VOLLENHOVEN, *Manager of „The Netherlands Bank”.*

Jhr. Dr. A. P. C. VAN KARNEBEEK, *Minister of State, President of the Carnegie Foundation.*

J. J. G. BARON VAN VOORST TOT VOORST, *President of the First Chamber of Parliament.*

Dr. D. FOCK, *President of the Second Chamber of Parliament.*

Jhr. Dr. W. H. DE SAVORNIN LOHMAN, *President of the High Court of Justice.*

A. W. F. IDENBURG, *Formerly Minister of Colonies, Governor-General of the Netherlands East-Indies.*

S. P. VAN EEGHEN, *President of the Amsterdam Chamber of Commerce.*

E. P. DE MONCHY Rzn., *President of the Rotterdam Chamber of Commerce.*

C. J. K. VAN AALST, *President of the Amsterdam Bankers Association.*

G. H. HINTZEN, *Banker, Member of the firm R. Mees & Zoonen, Rotterdam.*

F. M. WIBAUT, *Socialistic Alderman of Amsterdam.*

G. M. BOISSEVAIN, *Economist.*

E. HELDRING, *Manager of the Royal Netherlands Steamship Company.*

Prof. Dr. G. W. J. BRUINS, *Rotterdam.*

NORWAY.

- O. B. HALVORSEN, *Speaker of Parliament.*
 J. TANDBERG, *Bishop of Christiania.*
 FRIDTJOF NANSEN, *Professor of University of Christiania.*
 H. LOEKEN, *Governor of Christiania.*
 B. HOLTSMARK, *Leader of the Liberal Party.*
 G. A. JAHREN, *Leader of the Conservative Party.*
 J. L. MOWINCKEL, *Leader of the Radical Party.*
 K. BOMHOFF, *President Bank of Norway.*
 A. BJERCKE, *President of the Chamber of Commerce Christiania.*
 A. T. LARSEN Jr., *President of the Union of Norwegian Merchants.*
 C. KIERULF, *President of the Union of Norwegian Saving-Banks.*
 V. PLAhte, *President Norwegian Joint Stock Banks Association.*
 C. LÜTCHERATH, *President Norwegian Industrial Union.*
 CHR. B. LORENTZEN, *President Norwegian Exporters Association.*
 JOH. H. AANENSEN, *President Oversea Exporters & Importers Association.*
 T. FEARNLY Jr., *President Norwegian Shipowners Association.*
 C. PLATOU, *President of the Association of Norwegian Manufacturers.*
 T. MYRVANG, *President Farmers and Smallholders Association.*
 P. VOLCKMAR, *President Norske Handelsbank.*
 G. KAMPSTRUP HEGGE, *Manager Norske Creditbank.*

- N. MARTENS, *Manager Centralbanken for Norge.*
 E. SKOGSTAD, *Manager Christiana Bank and Kreditkasse.*

SWEDEN.

- J. G. A. AF JOCHNICK *President Sveriges Riksbank.*
 V. L. MOLL, *First Deputy Sveriges Riksbank.*
 C. E. KINANDER, *President National Debt Office.*
 J. S. SON KJELLBERG, *President Swedish Bankers Association.*
 H. LAGERCRANTZ, *President Swedish Exporters Association, Formerly Envoyee United States.*
 A. VANNERSTEN, *President Swedish Industrial Association, Formerly Minister of Finance.*
 K. A. WALLENBERG, *President Chamber of Commerce of Stockholm, Formerly Minister of Foreign Affairs.*
 M. WALLENBERG, *Manager Stockholms Enskilda Bank.*
 O. RYDBECK, *Manager Skandinaviska Kreditaktiebolaget.*
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 K. H. BRANTING, *Member of Parliament, Leader Labour Party.*
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 S. A. A. LINDMAN, *Member of Parliament, Leader Conservative Party, Formerly Prime Minister.*
 L. H. KVARNZELIUS, *Member of Parliament, Leader Liberal Party.*
 E. TRYGGER, *Member of Parliament, Leader Conservative Party, Formerly Member High Court of Appeal.*

- K. G. CASSEL, *Professor Political Economy.*
 D. DAVIDSON, *Professor Political Economy.*
 E. F. K. SOMMARIN, *Professor Political Economy.*

SWITZERLAND.

- G. ADOR, *Président Comité International Croix Rouge.*
 E. BLUMER, *Président Conseil National.*
 A. FREY, *Président Union Suisse du Commerce et de l'Industrie.*
 R. DE HALLER, *Vice-Président Direction Générale Banque Nationale.*
 J. HIRTER, *Président Conseil Banque Nationale.*
 Dr. E. LAUR, *Secrétaire Union Suisse des Paysans.*
 A. PETTAVEL, *Président Conseil des Etats.*
 E. LICOT, *Juge-Fédéral.*
 G. PICTET, *Banquier.*
 A. SARASIN, *Président Association Suisse des Banquiers.*
 M. SCHNYDER, *Président Association de la Presse Suisse.*
 Dr. H. TSCHUMI, *Président Union Suisse des Arts et Métiers.*

THE UNIVERSITY OF CHICAGO
DIVISION OF THE PHYSICAL SCIENCES
DEPARTMENT OF CHEMISTRY

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